By the Same Author

THE FARMER AND HIS DEBT

AGRICULTURAL CREDIT

THE STATE AND ECONOMIC LIFE

STATE BANKS FOR INDIA

BEING A STUDY OF STATE BANKS AND LAND MORTGAGE CREDIT INSTITUTIONS IN AUSTRALIA, NEW ZEALAND, SOUTH AFRICA AND THE UNITED STATES OF AMERICA, WITH SUGGESTIONS FOR ESTABLISHING SIMILAR BANKS IN INDIA

BY

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WITH AN INTRODUCTION

BY

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TO

HON'BLE NAWAB MEHDI YAR JUNG BAHADUR

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INTRODUCTION

The general problem of agricultural credit has now, for many years, been the subject in many parts of the world of lively discussion and acute controversy. At certain periods other issues have naturally attracted more public attention, but in the ebb and flow of economic development, there has always been a steady undercurrent of interest in this question, and in countries where farming activity holds the most important place in economic life, this undercurrent is continually coming to the surface.

On the one hand, it is possible to argue that in the important institutional developments which during the last generation or two have transformed the machinery of the capital market, in so far as it affects industry, commerce and transport, agriculture has been a little neglected. For a variety of reasons, it is usually supposed, perhaps a little hastily, that agriculture is not an appropriate field for the activity of joint-stock companies, and in consequence it is possible that the stream of capital resources flows too easily along other channels, and the farmer is handicapped because of his inability to get access to adequate capital supplies. On the other hand, farmers are not deficient in the power to apply political pressure, and as the maintenance and development of agriculture are often supported for non-economic reasons, it is possible that in making a vigorous effort to supply a substitute for the joint-stock machinery which is so efficient in other parts of the economy of a modern State, the balance has been pushed too far the other way, and that the share of the world's capital which is now invested in agriculture is larger than is justified by a consideration of all the relevant factors.

Naturally the decision in regard to these disputed points will not be the same in every country, but it is clearly important that any discussion of the general principles involved should be supplemented by a careful study of the machinery which is actually at work in various countries in dealing with the problem of agricultural credit. Such a study is especially useful because it brings to light much more clearly than would otherwise be possible some of the most significant practical aspects of the problem which in general studies of the question are far too easily overlooked, and it is much to be desired that those who are responsible either for determining policy or for influencing public opinion in this connection should submit their minds to the discipline, arduous though it may sometimes be, which such detailed study entails. Professor Qureshi's book is an important aid for this purpose and it will have a value which extends far beyond the Indian field whose needs are naturally most prominent in the mind of its author.

It is obviously not profitable to carry the discussion of agricultural credit far without examining carefully the sources from which the savings to be applied for agricultural development are expected to flow. These sources are of course varied, but especially in countries where the machinery of the capital market is not elaborate, it is natural that some attention should be paid to the possibility of linking together the capital needs of farmers, and the resources of small savers through the machinery of savings banks. And when we recognise here an institution which is worthy of analysis for its own sake, we may, with advantage, proceed a little further and study the general questions which suggest themselves when we ask what are the usual forms of investment practised by savings banks?

A realistic examination of these issues also demands a close study of what has actually been attempted and achieved in those countries where Savings Banks have had the longest history. Australia offers a good deal of useful material in this connection, and Professor Qureshi has done a useful service in setting out clearly the nature of the machinery used for housing loans and for other forms of investment. This part of his study should be especially valuable for those who are contemplating setting up savings bank institutions or of extending the field of operations of those already in existence.

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CHAPTER I

THE IMPORTANCE OF BANKS

Meaning of a State Bank

IT is necessary that from the very outset we should make clear what we mean by State Banks. Many people have confused such banks with the Central Banks of issue. But it is not necessary that a Central Bank of issue must be State owned or State controlled. It may be purely a bank owned and controlled by private shareholders, as, for instance, is the Bank of England, or to some extent our own Reserve Bank. Anyway, in this treatise we are not concerned with the banks of issue. By State Banks, in this treatise, we shall mean any bank doing either saving, commercial or mortgage business, the capital of which is either entirely provided by the State, or if it is subscribed by the Public, the State guarantees the repayment of this capital and the payment of interest thereon, and lays down a general policy of its work. The subscribers of capital of such banks (if they are private individuals) have no control over the management of the banks, which is either provided directly by the permanent officers of the Government, or, as is very often the case, by independent statutory boards appointed by the Government. The position of private subscribers of the capital of such banks is more that of bond-holders than that of shareholders.

The Importance of Banks

Since the advent of the capitalistic system of production, banks have assumed an importance quite unknown in the annals of the previous known history of the world.

In order that the machine of the capitalistic system of production may run smoothly, it is necessary to grease its wheels with proper doses of capital and credit. The initial amount of expenditure in some industries is so colossal that it is beyond the reach of even some of the richest persons which this world has ever known, as, for instance, the building of long-distance railway lines, and providing of rolling stock.

In order to carry on such expensive types of industries and to get the requisite amount of capital it became necessary to float public companies, the essential features of which are the same as those of partnerships. But unlike the partnerships the responsibility of the shareholders in most companies is limited. In 1861 the principle of limited liability was introduced in the joint-stock companies. And it is from that date that the real development on a progressive scale of the joint-stock banks begins. From that date the development of banks and of commerce and industry has gone hand in hand.

Banks have played a very important part in financing commerce and industry. They have mobilized the savings of millions of small scattered investors and have placed these savings at the disposal of commerce and industry. Banks act as a bridge between the two gulfs—producers and investors, and by bridging these gulfs provide a very useful service indeed. But it must be remembered that it is very essential that this bridge should be strong enough to bear every reasonable strain. The investors must be assured of the safety of their deposits and the commercial industries concerned must be assured too that if they present adequate security they can always get reasonable accommodation.

A system of banking which does not invite this confidence is likely to do more harm than good. The recurring failure of banks seriously retards the development of a country and scares the investors and indirectly fosters the habit of hoarding or unwise spending. This sounds paradoxical, but all the same it is true, and the paradox becomes clear if we look around and study the problems in every-day life. We shall illustrate it from Indian conditions. It has become quite customary to blame the people of this vast sub-continent for their vicious habit of hoarding. Indian capital is proverbially shy and India has been known throughout the world as a sink of precious metal and a very rich country in the most vulgar sense. But how often have we given this matter the serious attention which it deserves and have analysed the causes

which contribute to this state of affairs. The matter has been very often dismissed with the usual casual remark, "Ah well, our ladies are fond of ornaments!" Surely the love of ornaments and display is not specially confined to Indian women. It is a weakness which the fair sex falls into all over the world. But the consequences in many other parts of the world are not so disastrous as they are in India. The writer personally believes that our women are not so fond of ornaments as they are made out to be. If we look at most of the ornaments that they wear we find that these are so crude and heavy that it is a misnomer to call these ornaments. These are only heavy lumps of gold and silver and a sign of display of the wealth of the owner, rather than ornamentation. Our women cling to these lumps of gold and silver so dearly because generally that is the only security and wealth which they possess. If we could make the economic position of our women more secure than it is now, there is bound to be considerable lessening of this habit. But that alone will not end it.

Hoarding of wealth in some form or other is bound to continue as long as adequate scope and reliable facilities are not provided for investment. The entire absence of facilities for investment for persons of small and moderate means perpetuates the habit of hoarding and is also responsible for many other evils, *viz.*, of thefts and burglaries, loss of hoardings due to sudden deaths and the inability of the deceased persons to tell where the valuables were buried. These fears also act as great obstacles in persuading the farmers to live on their farms. But the material loss is far greater than this. In spite of this tremendous amount of hoarded wealth which we can approximately calculate at about 75 hundred crores of Rupees, we have to rely on foreign capital for development purposes and have to pay very heavy sums to other countries by way of interest. Not only that, but it also retards the development of the country and acts as a deterrent to further progress. It is no use blaming the people for their vicious habit of hoarding and

extravagant spending if no facilities are made available to them to lodge their savings with the confidence that these would be perfectly safe. Unfortunately, there are not enough facilities available in the country for lodging funds. This can be realised from the observations made by the Central Banking Enquiry Committee which remarks that "out of 2,500 towns in India, joint-stock banks and their branches exist in less than 400 places"* and even where such facilities are available the safety of funds is not certain. The history of commercial banking development in the country is so tragically marred with many bank failures that no fair-minded person can reasonably blame us for hoarding. The willingness of the people to invest where they can be assured of the safety of their funds and where enough propaganda work is carried on amidst them to make them realise the importance of savings and investment, they do not fail to utilize such opportunities. It is evident from the fact that during the War period when Government was badly in need of funds and embarked on a very extensive propaganda to persuade the people to subscribe to the Government War Loans, these loans achieved a tremendous success. This proves that people will invest provided they are constantly assured of the safety of their funds. It may be said that the years of War were unusual and that we cannot draw any such conclusions from the experience of that period. But even in the years that followed the War, the huge success of postal cash certificates is ample proof of the people's willingness to invest.

"Modern society depends for its continuance upon the adequate supply of savings. Its economic development is the result of a process by which accumulated savings are invested in new enterprises. Hence savings are of vital importance to the economic system."**

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* *Majority Report of the Central Banking Enquiry Committee*, page 106. Government Central Press, Delhi.

** Barou, N., *Co-operative Banking*, page 24. P. S. King.

One of the main causes of the slow development of our country is that the savings of the nation are not properly mobilized and made to grease the machine of commercial and industrial progress. The lack of banking facilities in the country has very serious and far-reaching consequences upon the economic development of the country as a whole generally, and on the life of individual people particularly.

Let us analyse this and find out where and how an individual's life is affected due to lack of stimulus to save and the absence of adequate facilities to invest these savings. We shall take the case of a farmer, as about 70 per cent. of the population of the country depends upon farming for their living.

A farmer has a seasonal source of income. By seasonal source of income we mean that he gets his income at certain seasons when he harvests his crops. In a country like India where one crop a year is usual in the majority of cases, it means our farmer gets his income, at least his main income, only once a year, while on the other hand, he has to incur various types of expenses throughout the year. And this leads him into many difficulties from which he seldom gets out. It has been pointed out that an Indian farmer is born in debt, lives in debt and dies in debt. It may be said that the fact that his income is annual instead of monthly or weekly should not by itself lead him to borrowing, for as long as he gets the same amount in a lump sum which a labourer gets in the course of 52 weeks in weekly instalments, economically both the worker and the farmer stand on the same level. But does he really? Practical life unfortunately does not coincide with theoretical assumption. If the farmer was an 'economic man' and was living in a well-developed community, the difference would not be very great. But a farmer, absolutely illiterate, without the slightest knowledge of book-keeping and accounts, tied up with the barriers of custom and tradition, and having altogether a non-material outlook on life, surrounded by all sorts of parasites who are prepared to squeeze his very blood if they possibly can, very soon spends the

lump income which he gets and for the remaining part of the year has to rely on borrowing.

Now if it had been possible to open a net of bank branches in the big villages and the farmers had been made to deposit their annual proceeds in such banks and allowed to draw money as and when needed, the position of the farmers would become very different from what it is now. What is the connection between organized banking facilities and national development? The economic history of the New World very clearly shows that the connection between the two is a very intimate one and for the proper development of the national resources of the country a well-developed system of banking is absolutely necessary. This very important fact has been well realised by the countries of the New World and no efforts have been spared in these countries to provide facilities for saving and investment. For indeed, State Banks and Savings Banks have been opened in the various states of Australia. (The details of which are described elsewhere in this work.)

To foster the spirit of saving, the State of Victoria opened a State Savings Bank as early as 1841, to cater for the needs of small investors and to create a spirit of saving in the lower strata of society. In order to inspire confidence in the people and to provide absolute security for their funds, the State of Victoria guarantees the repayment of principal and the interest thereon. The Bank has developed its business to such an extent that it has over 200 branches and 400 agencies and the total amount of deposits exceeds £65 millions. No efforts have been spared to bring home to the people the importance of saving and investment. The importance of advertisement and propaganda has been fully realised in Australia and in other new countries, and it is well for us to follow the example of these countries in this matter. The vast multitude of our populace must be made to realise the importance of savings and every possible propaganda and regular "savings campaigns" should be carried on in the country.

To make this point clear we shall take an example from Australia.

In 1927, the State Savings Bank of Victoria opened a service department. The object of this department is to create a saving habit in the working classes. Group savings clubs are established in factories and business houses to enable wage-earners to deposit in the bank their earnings without having to visit the bank. During 1936–37 over eight million pay envelopes conveying thrift messages to stimulate the habit of saving small sums out of income were supplied to owners of factories, firms, etc. Employees received their pay in these envelopes and the messages keep the object of the bank under constant notice.

In a comparatively backward country like ours, it is all the more necessary that this type of work should be carried on more extensively. The best way to foster the spirit of saving in the farmers is that banks should undertake to collect grain from the fields of the farmers and should credit them with the amount realised from the proceeds of the sale of these agricultural products. The farmer will be readily prepared to hand over the grain as he is accustomed to this sort of thing from ages and will understand it. During harvest seasons in India a farmer is extremely busy and cannot afford any time to go to the town. At this period all sorts of parasites surround him, and he can hardly spare enough grain from the hands of these greedy wolfs to lay aside and sell later to meet his future needs and obligations. His philosophy is, first come first served, and if the agents of the bank came at the right moment, they would be doing a real service to the farmer and would save him from his own folly.

It may be argued that in a country like India, where the unit of farming is so small it may not pay the banks to undertake this type of business. If the matter is looked at from a narrower angle and only a short view is taken, the reluctance of banks to undertake such a work would be justified, but it is nothing short of a folly to take such a view in matters of so vital importance to the nation. A State Bank opened with a view to serve the country and not to realise profits should be in a good position to undertake this type of

business. It may not get profits from this work and might possibly lose some money on it, but by developing the spirit of saving and creating a future clientele who would do all sorts of business with it, the bank may then make up the losses in the long run.

In this connection it will be interesting to quote the experiences of the Bank of New Zealand.

In 1933, when the writer visited the Bank of New Zealand, he found that the bank had opened a special department to provide long-term credit to the farmers. In order to get funds it issued debentures to the public offering $7\frac{1}{2}$ per cent. interest per annum. But on mortgage loans it charged the farmer only $6\frac{1}{2}$ per cent. per annum. For a commercial bank to do this sort of thing looked nothing short of folly; to borrow at $7\frac{1}{2}$ per cent. and to advance at $6\frac{1}{2}$ per cent. But the writer was assured in this matter, that the losses that the bank incurs in these loans are made more than good by getting the 'other' business of the borrowing farmers that the bank secures, which otherwise would have gone elsewhere.

The importance of fostering the spirit of saving in future clients even if it may not be a strictly profitable proposition immediately, should be properly realised in India and no efforts should be spared to achieve this end, and we should begin right from the child.

The authorities of various States in Australia have very wisely realised that the school child is the most fertile soil where the seed of thrift can be sown and a bumper harvest of real savings can be realised in the years to come. In order to create a saving habit in the school children, the State Savings Bank of Victoria has opened in the schools about 3,000 small banks where children can deposit small sums of money. During the last 30 years the bank has sold one million safety deposit boxes for a nominal price of about four annas each. Children and other people of small means can deposit small sums of money in these boxes, and when these are full, the contents can be deposited in the savings bank.

The Savings Bank of South Australia has opened a Penny Bank Department, where a sum as small as one anna is also accepted for deposit. In nearly all the State schools, branches of Penny Banks have been opened.

It is clear from the above examples how great an importance is attached even in rich and highly civilised countries to foster the spirit of savings and to provide every possible facility and inducement to deposit their savings with the banks.

Another very important feature of many Australian State Banks is the development of banking by post. Persons residing in districts where there are no offices of State Banks may conduct their business direct with the Bank. In order to foster the habit of saving in such remote parts and to encourage these cut off villagers to form a banking habit, all expenses paid by the depositors for remitting or withdrawing money by post are refunded by the banks. Even expenses incurred in postage-stamps and stationery are refunded. These banks provide liberal facilities and are altogether free from the red tape which is very often noticed in government institutions. Sums not exceeding £50 can be withdrawn without any notice and only a few days notice is required by some banks for bigger sums. The rules are followed more in their spirit than in their letter and in special cases these restrictions are removed. In spite of the fact that Australia possesses one of the finest and most highly developed commercial banking systems in the world, it has been found that these big commercial banks cannot fully cater for the needs of small investors and it has been considered necessary that the State should undertake this work. In a country like India with its enormous population, and the rapid development of commerce and industry in the country and growth of towns, the present banking facilities are very inadequate. The Indian joint-stock banks with few exceptions do not inspire any confidence in the majority of people and recurring failures of many commercial banks scare even the most bold investors.

Under the circumstances it is hardly necessary to emphasise the necessity for providing commercial banking facilities. Once we have admitted that the present commercial banking facilities are inadequate and it is desirable to provide further facilities, the only important question left to answer is what steps should be taken to provide these facilities. An ideal thing to be desired for is that the joint-stock banks should realise the importance of developing the spirit of savings and should try to tap fully the small investors by inspiring confidence and provide them with every reasonable facility and service by opening a net of branches in the country and following a wise and prudent banking policy, so that the chances of a failure of any bank should become as remote as possible. And once they inspire this confidence it will become worth their while to open more branches that pay for themselves. If the mushroom growth of small banks with inadequate funds is checked and efforts are made to consolidate the existing institutions and the Indian Companies Law is amended in such a way that no new bank in the country can be established without a special charter, and adequate supervision is made of the working of commercial banks, it may be possible to achieve the desired end. But the previous history of the development of banking in this country does not give much encouragement and even if we admit that such a thing is possible in the near future still the writer after considering the experience of other countries that have a fine well-developed commercial banking system, and still have found it necessary to establish State Banks, is of the opinion that it is inevitable in a country like India that special attention should be devoted to this problem and the Government should take early steps to provide this sore need. One may object, and rightly too, to the interference of the State for it is highly desirable that ordinarily the State should interfere as little as possible, but it is necessary in a country like India that the State should undertake the duty of providing adequate banking facilities in the country. The reasons why it is necessary that the State should provide this facility are manifold. For

instance the present Governments in the majority of Provinces in their election campaign have promised to provide all sorts of facilities to the electors and in order to fulfil these promises it is essential that the Governments should have ample funds at their disposal to spend in nation-building and development departments. One way to get these funds is from taxation. But taking into consideration the existing revenue resources of the provinces a person would be more than an optimist who would expect an increase from these resources. The two major items of Provincial income are Land-revenue and Excise. The excessive burden of land-revenue has been a constant source of friction between the Government and the farmers in the past and definite promises have been made by the Provincial Governments to lighten this burden. So in years to come instead of any increase or even the realisation of the present revenue, one can clearly foresee the gradual decrease in revenues from this source. The next most important item in the list of Provincial revenues is duties realised from excise. But we all know that due to ethical reasons and other considerations the majority of Provincial Governments are pledged to make the country as dry as possible and with the increasing success of this policy the sources of revenue are bound to get drier and drier. Another item of revenue is the proceeds realised from the sales of judicial stamps, etc. But with the development of the panchayat system, the control of money-lending and the general enlightenment of the people, litigation is bound to decrease and result in decreasing revenue for the Provincial Governments.

What is to be done? It is not within the scope of this treatise to discuss the various sources of revenue, but we have to realise that it will not be possible for the Provincial Governments to raise all the moneys for development purposes through taxation. The other alternative is that for productive schemes the Governments should raise loans or as an extreme case the State itself should step in and take the role of *entrepreneur*. But in this case, more than in any other case, it will need an increasing amount of funds to carry out its

schemes, and it will be all the more necessary for it to borrow. Now it is admitted by all that the banks play a very important part in helping the Governments in raising loans. They invest their spare funds in Government securities. They create a spirit of thrift and a habit of saving, induce the nation to mobilise its resources, and make them available for investment. Under ordinary circumstances any Government would need the help and co-operation of the banks in the country in raising loans and it can be said without any fear of contradiction that the more well-developed the system of banking in the country, the easier it is for the Government to borrow funds. So it is in the interest of the Provincial Governments that they should help the development of sound banking in the country.

The above argument applies with much greater force to the interests of commerce and industry for whom a well-developed system of banking is inevitable, and the greater the banking facilities available in the country the better are the chances for developing commerce and industry. Of course, it is quite evident that the banks need the development of commerce and industry, to invest profitably their funds, as commerce and industry need the help of banks. But for the purpose of the Provincial Governments the sound development of banks is all the more necessary because such banks will provide facilities for the Governments to raise loans, help in the development of the country by providing the requisite amount of credit, and thus enable the development of the country and raise the national income and also indirectly help the Government to raise more taxes by increasing the taxable capacity of the people. From the trend of our argument it is quite clear how necessary it is in a capitalistic system of production that savings must keep pace with the financial requirements of the nation, and in countries which are still on the verge of industrial development the necessity of such savings is all the more important. But to encourage savings, confidence in the banking institutions is the first fundamental requisite and unfortunately

this requisite is not available in our country to any considerable extent, to a large number of people, and unless and until this confidence is created (and it is highly desirable in the interest of the country that it should be created without a moment's delay) it will not be possible to mobilise the savings of the people to an extent which is necessary for the well-being of the country. Now, fortunately, in India the word Government has a magical power with the masses and any institution with which the name of the Government is associated inspires absolute confidence. And if the name of the Government is associated with banks and the Government embarks on a programme of providing banking facilities to the people, the writer of this treatise is confident that if it is done on the lines he is going to suggest, it will be possible in India in the course of a few generations to do away with the habit of hoarding to a very considerable extent. The Governments have nothing to lose and everything to gain by opening State Banks. Taking the narrower view at first, it will require spending some money for a few years, but eventually it will not be a financial burden on the Government. On the other hand, these banks are likely to yield net profits to the Government as is the case with many State Banks (as will be clear from the pages of this book) in other parts of the British Empire.

The development of banking in the country will result in the development of commerce and industry ; and will provide credit to agriculture and other industries at reasonable rates of interest, and by doing so, it will give real stimulus to the development of the country. By the provision of facilities for investing it will check the habit of hoarding, which will not only increase the income of the hoarders but would also result in the decrease of expenses by the Government in keeping peace and order as there will be fewer thefts. And above all that it would make it all the easier and cheaper for the Government to borrow money for development purposes. Therefore, it is quite clear that there is a strong case for the opening of banks by the Provincial Governments to provide facilities for savings.

The Provision of Mortgage Credit

In the previous pages we have shown the inadequacy of commercial banking facilities and have pointed out the desirability of establishing a commercial bank by the State with a net of branches to provide such facilities. But such commercial banks can cater only for the small investor, and if they lend money it can only be for a short period, as they have a responsibility to their depositors and their funds must be kept liquid.

But no less important than commercial banking facilities is the need to provide for long-term credit.

As a matter of fact, the need for the provision of long-term credit both to Agriculture and Industry is far more important and urgent than the need for short-term credit, because there are at present various institutions which do provide short-term credit, but hardly any facilities exist in the country to provide any long-term credit. No facilities to provide long-term credit to the industry exist at all. As far as agriculture is concerned these facilities are far too inadequate. No doubt there are co-operative land-mortgage banks in various provinces, but these are of very recent origin and with the exception of two or three provinces, do not figure in the rôle of rural financiers to any noticeable extent. It is strange to note that in spite of tremendous development of co-operative banking in the country since 1904, very little attention has been devoted, until recently, to start land mortgage banks. The first co-operative land mortgage bank in the country was not started until 1923 (in the Punjab) and up to 1927 there were not many land mortgage banks in the country. Although we have followed the German system of co-operation, unlike Germany we have not developed long-term mortgage credit institutions. In Germany, and in other parts of the Continent, in the earlier stage of the movement, all efforts to apply the principle of co-operation to agricultural credit were devoted to the provision of long-term credit. The principle of co-operation in Germany was first applied as early as 1769, by Frederick the Great, in the opening of

Schlesiche Landschat, which was to be a bank of the co-operative type. Landschats were the co-operative associations of big land-owners, which were organized to provide long-term credit by the issuing of mortgage bonds which were originally based on the mortgaged property of individual members with some sort of a guarantee by the Association. Since 1872 the system has developed on more scientific and rational lines. The haphazard system of individual mortgage has been replaced by a sound system of collective security, *i.e.*, the Landschats have assumed the joint and several responsibility for all loans and bonds are issued not on the specific security of each separate mortgage, but on the general security and credit of the Landschat.

The Need for Long-Term Credit

Considering the fact that agriculture is the main industry of the country and supports directly or indirectly three-fourths of the population, it seems hardly necessary to emphasise the importance of establishing this industry on a sound footing and all attention in the country should be devoted to the problems of this industry. But unfortunately this is not so. Even to-day there are some cynics in the country who would question the advisability of organising efforts to cater for the financial needs of the farmer. In their enthusiasm to do away with the evils of private money-lending they think that credit has been the curse of the farmer and if he does not get any credit he will be better off. Before proceeding any further with the problem of provision of agricultural credit, it will be worth our while to examine briefly the psychological aspects of the problem of rural indebtedness and the repercussion it has on the questions relating to the provision of credit in the country.

The Problem of Rural Indebtedness*

The problem of rural indebtedness in India is so colossal and complicated that it is hardly possible to discuss it in a few paragraphs. But, as it is a matter of vital importance,

* The problem has been fully discussed in my book *Indian Agriculture and its Problems*, which is in the press at the present moment.

it is necessary that the complications of the problem should be properly understood. Mr. Darling has made a remarkable study of the problem in the Punjab and as it applies more or less to other parts of India as well, an apology is hardly needed to reproduce a long quotation from his book.

" The first and most obvious conclusion is that the bulk of the cultivators of the Punjab 'are born in debt, live in debt and die in debt'. There is probably hardly a district where more than a third are free of debt, and in some the percentage is less than ten. Moreover, mainly owing to the inflated value of land and the consequent expansion of credit, this debt is much greater than it was fifty, or even ten years ago, and its rapid increase has deprived the cultivator of much of the benefit that he would otherwise have derived from the growing prosperity of the province. It is unnecessary to recapitulate the causes of debt, but in examining them we saw that debt was allied to prosperity and poverty alike, and that, while its existence was due to poverty, its volume was due to prosperity. We saw further that the link between the two was the moneylender, and that for fifty years, roughly from 1870 till the end of the War, he was everywhere the evil genius of the cultivator, exploiting him where he was prosperous, and enslaving him where he was poor. In business the strong invariably prevail over the weak, and to this rule the Indian village has been no exception. Ignorant, improvident and unbusinesslike, the peasant was no match for the astute and rapacious moneylender, and was as easily shorn of his gains as a sheep of its fleece. For a time the rapid increase in debt was kept in partial check by the Land Alienation Act; but, with the tendency of all protective legislation to defeat its own object, the Act fostered the growth of the agriculturist moneylender, and borrowing soon became as easy as ever. This would have been an advantage had the agriculturist moneylender allowed himself to be influenced by any fellow-feeling for his debtor, but in this respect there is little to choose between him and his professional rival; the one is as harsh as the other is astute, and

both are demoralized by the system under which they work. Under this system the creditor is in danger of being turned into a tyrant and the debtor into a serf. The cultivator sows that another may reap, and toils that his creditor may gain. Of what use to him, then, are all the devices for improving the quantity or the quality of his harvest ? As well teach him to convert his bullock cart into a lorry, for all the good that it is likely to do him. Economic freedom is a condition precedent to progress, and to the Indian cultivator no progress is possible till the power of the moneylender, whether agriculturist or bania, is broken. As a German writer says, usury must be fought to protect not only the weak but the whole industry of agriculture against a parasite which threatens its foundations.

"Our second conclusion is that the peasant proprietor cannot keep out of debt unless he is exceptionally industrious and frugal, or has a second string to his bow. This fact has again and again been stressed in the course of our enquiry, and, so far as the Punjab is concerned, it is abundantly proved by what we have encountered in different parts of the province. We have seen that where industry is unflagging and habits frugal, as amongst the Mahtons of Jullundur and the Ahirs of Gurgaon, or where, as in Rawalpindi, men are accustomed to emigrate or enlist, debt is comparatively light ; but where these factors are absent, the peasant is largely dependent upon the moneylender. In general this conclusion agrees with the experience of other countries. 'The English small holder,' says Mr. Curtler, 'without any by-industry, has hitherto only been able to keep his head above water by a life which, without exaggeration, may be called one of incessant toil and frequent privation.' In Japan, where 96 per cent. of the cultivators live on less than eight acres, more than one-third of the farming population keep themselves afloat by the rearing of silk-worms. In Italy and France, sericulture plays a similar if less important part, as also does the making of toys in Germany and Russia. In many parts of Europe, it has been one of the difficulties of the small

holder that domestic industries cannot stand the competition of the factory, and this was amongst the causes that led to the decline of the peasant proprietor in England in the eighteenth century. In other countries it has been met by the development of the more intensive forms of farming implied in market gardening, dairying, and stock-breeding. But even so, in the richest part of England (the Isle of Azholme), 'It is considered that ten acres is the smallest area on which a man can support a family without any other industry to help him,' and where there is no live-stock industry or market gardening, twenty acres are needed. It is dangerous to compare two countries so dissimilar as England and India, but it is obvious that where, as in India, rural industries are relegated to the menial castes, and market gardening is considered derogatory, and scientific stock-breeding is impossible to any but a Muhammadan, the economic holding is likely to be larger than where these restraints are absent. Nor after examining the condition of the peasant proprietor in different parts of the Punjab, can we doubt that the few acres which he commonly cultivates are wholly insufficient, under present conditions, to maintain him in decency, independence and comfort. The report of the Provincial Banking Enquiry Committees suggest that the same is the case throughout India. That of the United Provinces may be quoted at length: 'Everything is against him (the peasant). Because he is a cultivator, he must borrow to secure his crop. Because his holding is small and has to support more persons than it can feed, he must increase his borrowing to keep those persons alive while the crop is in the ground. His caste and his religion compel him to borrow a third time to meet the cost of customary festival or customary ceremony. As the debt grows, repayment of it becomes more difficult—until at last some calamity comes upon him, repayment becomes impossible, and he sinks into a state of chronic indebtedness, from which death alone can release him.' " *

* Darling, M. L., *Punjab Peasants in Prosperity and Debt.* Third Edition.

The Burden of Indebtedness

In 1922, Mr. Darling estimated the rural indebtedness of the country as 600 crores of rupees. In 1929–30, he examined the problem again and found that the rural indebtedness had increased to 900 crores of rupees—an increase of 50 per cent. in about eight years. Since 1930 the situation has become much worse. Prices of agricultural products until recently had fallen to a very low level. For many commodities the farmers in the quinquennium of 1931–35 realised only half the price than what they had received previously. That means without additional increase in the amount of debt the burden had almost doubled. In this period of falling prices, in many instances the farmers were not able to realise their bare cost of production, and with great difficulty were able to keep their heads above water, and make both ends meet. Any suggestion of repaying the debt during this period was altogether out of the question. They could not even pay interest on their loans, and as a result, even, the main amount, by the compilation of compound interest, must have increased tremendously. Ignoring the fact that the burden of this debt had increased to double the original amount due to the fall of prices, the absolute amount of debt increased at least by another 50 per cent. owing to the accumulation of interest only. That means that the main amount of indebtedness at the beginning of 1938 was 13½ hundred crores of rupees. Assuming that there was no serious fresh burden of debts during this period which is quite likely owing to various restricting laws passed during this period by the Provincial Governments, and that some farmers through the medium of artbitration boards, were able to reduce their debts, and others sold their gold and silver ornaments to reduce their obligations, it can fairly and very conservatively be assumed that the total rural indebtedness of the country at the beginning of 1938 was 1,200 crores of rupees.

Although the figure in itself is very impressive, the total amount of indebtedness by itself is no indication of its burden. Supposing all this amount was invested in digging

wells and in making other permanent improvements in the land, the increased income realised owing to these permanent improvements would ordinarily more than repay the interest and the borrower would feel no burden whatsoever and the debt instead of being a curse could become a blessing. But unfortunately the picture of Indian farmer's indebtedness is not so rosy.

The bulk of the debt is a dead weight on the already too heavy burdened back of the farmer. A portion of this amount has been borrowed at unbelievably high rates of interests for all sorts of unproductive purposes, which after the consummation of the loan leave the farmer in the lurch.

It has been discovered that the provision of credit facilities have done more harm to the average farmer than good. The credit without the education to use it is more a curse than a blessing. Consequently a school of thought has grown in the country which believes that all possible efforts should be made to discourage the use of credit and the farmer should be thrown to his own resources to manage his affairs.

If the *status quo* is to be taken as permanent and inevitable, this is a council of perfection. But there is no reason for us to lose all hope. The Provincial Governments have become alive to the necessity of improving the economic and social conditions of the country. No efforts are being spared to spread education as quickly as possible, and if the present zeal continues for some years, and let us hope that it will, the farmer of the next generation will become much more alive to improve his industry and put it on a sound financial basis than the farmer of to-day. We must not despair. We must think ahead.

As already pointed out, capital or credit in theory is in itself neither good nor bad, it all depends on the use to which it is put. Until recently it has been put to all sorts of bad uses, consequently it has resulted in creating a feeling that credit is bad for the farmer. But if agriculture is to be developed on scientific and rational lines and the standard of the teeming millions is to be raised, agriculture which is the chief

industry of the country must be exploited fully, and the proposed exploitation of agriculture requires lots more capital than is spent on it at present. Indian agriculture is at present very poorly capitalised, and as a result it yields very meagre returns. The condition of Indian agriculture to-day is practically the same as it was in many European countries 200 years ago. But with the consolidation of holdings, which resulted from the enclosure movement, large-scale farming which requires a large outlay of capital, became very general, and the output of agriculture was tremendously raised in England and in other countries of Western Europe.

The comprehensive system of land record rights which developed in Europe in the 19th century made it easier to finance the agricultural industry and to provide permanent sources of credit by the issuing of mortgage bonds, and made it easier for the land-owners to borrow money at reasonable rates of interest, to develop their farms and to provide permanent improvements. As a result of the easy flow of credit, agriculture developed tremendously, and soon passed from the subsistence scale of old-fashioned farming where the whole family laboured like serfs and only got enough to eat, to well-developed modern farms. This improvement was also achieved by changing the old personal basis of credit to the impersonal basis of mortgage bonds. In the days of personal credit, the position of the borrower was that of an inferior in society and money was borrowed only when it was absolutely necessary. The previous position could be well described as that of usurer and of necessitous borrower to the present position to an investor and an *entrepreneur*.

To change the position of our farmers from the former to the later state should be our ideal in India. Instead of having necessitous farmers we should try to develop a class of enterprising farmers who would embark on any enterprise in a business-like manner and try to employ all the factors of production to the margin so that these factors may

yield an adequate return. Just as an industrialist borrows money by the issue of debentures to build a new factory or to extend his work, if he thinks that after paying for all the other factors of production, he can realise an adequate profit, so the farmer should be made to think that if he can borrow money at a certain rate of interest, say 6 per cent., and by digging a well can get better crops that will yield him an extra income, say 10 per cent. more than he got before the well was made, it is quite clear that it is advisable to borrow money at 6 per cent. and to receive a profit of 4 per cent., after repaying the interest. Now if a manufacturer can issue bonds without the slightest feelings of 'poorness' and as a matter of fact, the larger the amount of credit he can raise, the prouder he feels, there is no reason why the farmer should not do the same and feel the same way about it. Of course, an individual farmer owing to the smallness of his business unit cannot raise loans by way of debentures just as the big industrialist does, but surely his security is just as good (in many cases perhaps better) and some way can be found to enable him to get the same advantage from his security which the industrialist does. This difficulty has been overcome in other countries by opening land-mortgage banks which hold individual securities, but on the strength of their own credit issue land-mortgage bonds to the public in just the same way as the industrialist issues debentures. The mortgage bond in most European countries is considered first class security and no reputable institutions find any difficulty in selling their bonds. In order to safeguard the interest of the investors various restrictions are imposed in the issue of these bonds.

Before we outline a definite scheme of State Banks for India, it seems advisable that we should familiarise the readers with the working of such institutions in the other parts of the world. In the next chapter we shall start with Australia.

Chapter II

STATE SAVINGS BANK OF VICTORIA

SECTION A

Savings Bank Department

The State Savings Bank of Victoria is the first bank of its kind and was established in Victoria, at Melbourne in 1841, to cater for the needs of small investors and to create a spirit of saving in the lower strata of society. An amendment was made in the Bank Act in 1896, and the bank was divided into two departments, or to be more correct a new department called, the Credit Foncier Department, was created ; this new department lends money on mortgage security. The interest on deposits in the Bank's Savings Department is guaranteed by the Government of Victoria. The management of the bank is entrusted to five commissioners who are appointed by the Governor-in-Council.

Savings Bank Department

The Savings Bank Department of this bank has done a very real and unique service to the peoples of this State, especially to those who have limited resources. The popularity of the bank and the magnitude of its services can be well realised when we find that the depositor's balances on 30th June, 1937 exceeded sixty-five million pounds.*

Savings Bank Rules

Deposits are received by the bank from a minimum of 1*s.* to a maximum of £1,000 as ordinary deposits. However, the depositors are allowed to purchase Savings Bank Stock up to £1,000 in addition to their maximum deposit of £1,000. Payments are made only to a depositor personally and on his or her request to the bearer of an order in the form approved by the commissioners and signed by the depositor. Such orders must be accompanied by the passbook. If a

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* *Annual Report of the State Savings Bank of Victoria* for the year ended 30th June 1937, page 4.

depositor is not literate or cannot write his or her name it must be witnessed. Friendly societies and other charitable institutions are also allowed to open accounts with the bank. Depositors are not allowed to open more than one account, but moneys can be withdrawn and deposited at other branches. The maximum rate of interest is fixed at four per cent., and can be changed from time to time by the commissioners with the approval of the Governor-in-Council, the present rate being two per cent. (1938). Ordinary depositors are not allowed to issue any cheques, and moneys can be drawn only on the counter on the presentation of the passbook. However, in order to facilitate the work of the friendly societies, these are allowed to issue cheques.

Withdrawal Facilities

It is very gratifying to note that the bank provides liberal withdrawal facilities and is altogether free from the red-tape which is very often noticed in Government institutions. Depositors can withdraw (if the passbook be presented at the office named on the cover) sums not exceeding £50 on demand; from £50 to £100 on two days' notice; from £100 to £200 on three days' notice; exceeding £200 seven days' notice. There is one very gratifying feature of the bank, *i.e.*, that these rules are followed in their spirit and not in their letter. Deviations are made in special cases. If the passbook is presented at any other office of the bank in Victoria than that named on the cover, and the depositor can be fully identified to the satisfaction of the bank officials, a sum not exceeding £20 at branches and £10 at agencies may be withdrawn on demand, free of charge. It may be mentioned here that the bank has over 200 branches and about 400 agencies. A depositor at a distance from his bank may also withdraw by telegram in sums not exceeding £20 per day by presenting his passbook and furnishing proper identification. In this connection he has a choice of three methods: (1) Notice and reply by telegram; (2) Notice by telegram and reply by first post; (3) Notice by post and reply by telegram.

To provide further facilities to the depositors, arrangements have been made by the bank to withdraw money at certain banks in various other States of Australia. A depositor, before leaving Victoria for Great Britain or New Zealand, may apply to have his bank balance made available for him on his arrival there. The bank transfers the account to any of the branches of the Post Office Savings Bank in Great Britain and Ireland or the Post Office Savings Bank of New Zealand. Depositors in Great Britain and New Zealand may similarly arrange to have their accounts transferred to Victoria. For the convenience of the depositors in London the bank has opened a branch where moneys can be withdrawn or deposited.

Facilities for Tourists

Tourists or other depositors can operate upon their accounts on demand in distant towns in Victoria or in other States. Before leaving home they have to call at the office where their account is kept and sign an identification form to enable them to withdraw sums up to £20 on demand at any branch, or £10 at any agency, any day during two months upon presentation of their passbook at any branch of the bank in Victoria or £20 every three days during two months at certain banks in other States.

Banking by Post

Persons residing in country districts (villages) where there are no offices of the State Savings Bank may conduct their business direct with the bank. In order to inculcate the habit of saving in such remote parts of the State and to encourage these cut off persons to form a banking habit, all expenses paid by the depositor for remitting or for withdrawing money by post are refunded by the bank. Even expenses incurred in postage stamps and stationery are refunded.

Savings Bank Stock

The Commissioners are allowed by the Act to sell Savings Bank Stock of £10 or any multiple of £10. This stock is

called "Victorian Savings Bank Deposit Stock", and the maximum amount authorised by the Act is three million pounds. The maximum limit of deposit also applies to the stock, as no single depositor is allowed to purchase in his or her name, stock exceeding £1,000. A slightly higher rate of interest than that of the passbook accounts is allowed on this stock, that is $2\frac{1}{2}$ per cent. per annum instead of 2 per cent. as is allowed on the passbook accounts. Any depositor may invest in deposit stock in sums of £10 or any multiple of £10 in addition to having a passbook account. Holders of such stock are allowed to withdraw moneys in £10 units or any multiple thereof by giving notice of one week for withdrawals not exceeding £40. For larger sums longer notice is required. For instance one month's notice is required for sums not exceeding £100, and six months' notice is required for sums exceeding £900. A notice varying from two to five months is required for sums varying from £300 to £900. The capital and interest payable on this stock is guaranteed by the Government of Victoria, and the stock is free of State income-tax, but is subject to "State unemployment tax" and Federal income-tax. This very much resembles the cash certificates issued by the Post Office Savings Banks in India, with the fundamental difference that there are no rigid restrictions regarding withdrawal of funds.

School Banks

The authorities of this bank have very wisely realised that the school child is the most fertile soil where the seed of thrift can be sown and a bumper harvest of real savings can be realised in years to come. In order to create a banking habit in the school children the bank has organised in the schools small banks where children can deposit small sums of money. It is very gratifying to note that the number of such banks is very rapidly increasing. At the end of June 1937 there were 2,758 such banks in the schools all over the country, and the number of depositors was 198,855. The amount to their credit was £291,319—an average of £1 9*s.* 4*d.*

each. The services of teachers are given voluntarily. As a mark of appreciation the bank gives, annually, two scholarships of £40 each to resident students reading for the primary course at the Teachers' College.

The Service Department

In 1927 the bank inaugurated the Service Department. The object of this department is to create a saving habit among the working classes. Group savings clubs are established in factories and business houses to enable wage-earners to deposit in the bank their earnings without having to visit the bank. These clubs number 769. They are used by 57,460 members. The balance at their credit at 30th June 1937, was £282,289. During the year 1936–37 over eight million pay envelopes conveying thrift messages to stimulate the habit of saving small sums out of income were supplied to 2,628 factories, firms, etc. Employees received their wages in these envelopes and the messages keep the objects of the bank under constant notice. Safety money boxes numbering 59,712 were sold during the same year at a cost of 6*d*. each. Since the date of the first issue in 1908 over a million and a quarter such boxes have been sold. Children and other depositors of small means can deposit small sums of money in these boxes, and when these are full the contents can be deposited in the savings bank.

The Safe Deposit Department

The Safe Deposit Department has been established in the bank for the convenience of its depositors to lodge their valuables in safe custody. It holds over 67,000 lodgements of debentures of the State and the Commonwealth Government for a total face value of over twelve million pounds on behalf of its depositors free of charge. In addition, it holds for over thirteen thousand depositors parcels and boxes containing deeds and other valuables for which a small charge is made.

The Bank and the Saving Spirit

The bank has been very successful in its laudable object of creating a spirit of thrift and saving in the State. The provident spirit of the people of Victoria may be judged by the fact that the balance of all types of deposits at 30th June 1937 was over 65¾ million pounds, which represents an average deposit of £64 10*s.* 11*d.* The total number of depositors was 1,393,114.* In addition to this very impressive figure of deposits about twenty-four million pounds were withdrawn by the savings bank depositors during the past twenty-two years or so to invest in Commonwealth loans.

The Insurance Trust Fund

In 1921 the bank established an Insurance Trust Fund which at present amounts to £678,589. There are 39,493 policies amounting to over twenty-seven million pounds issued to the borrowers from the State Savings Bank and the Credit Foncier.

Mortgage Loans

The bank is allowed to grant mortgage loans from the funds at its disposal for a maximum period of three years in sums from £3,000 to £25,000. The rate of interest charged at present is 4½ per cent. and the bank is not allowed to lend more than two-thirds of the value of the property offered as security. It must be understood that these loans are distinctly different from the loans granted by the Credit Foncier, the activities of which are described in a later section.

The Financial Position of the Bank

The financial position of the bank seems very satisfactory. The net profit for the year ending 30th June 1937, after making full provision for doubtful debts, was over £266,000. This profit, added to the balance of profit and loss account brought forward from last year amounted to over £415,000,

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* *Annual Report of the State Savings Bank of Victoria*, 1937, *Government Printer*, Melbourne.

from which £250,000 was transferred to the reserve fund. The reserve is three and a quarter million pounds and the liquid assets of the bank are 32·16 per cent. of the depositors' balance. A sum of over thirteen million pounds has been invested in the Credit Foncier debentures.

In order to fully show the financial position of the Savings Bank Department the latest balance-sheet and profit and loss account for the year 1937 is reproduced below:—

THE STATE SAVINGS

Balance-Sheet,

LIABILITIES	£ s. d.	£ s. d.
Depositors' Balances with Interest to date—		
Current Accounts	63,239,783 3 1	
School Bank Accounts	291,319 4 11	
Victorian Savings Bank Deposit Stock Accounts	2,224,089 16 2	65,755,192 4 2
Balance due for Agents' Salaries and School Bank Commission		12,334 17 5
Sundry Amounts held in Trust		26,967 5 7
Officers' Trust and Provident Funds ..		609,476 15 7
Insurance Trust Fund		676,589 9 0
Reserve Fund		3,250,000 0 0
Interest Fluctuation Account		955,500 0 0
Fidelity Guarantee Fund		10,000 0 0
Profit and Loss Account		165,651 19 9
		71,461,712 11 6

BANK OF VICTORIA

30*th June* 1937

ASSETS	£	*s.*	*d.*	£	*s.*	*d.*
Cash on hand and at Bankers, Fixed Deposits with Banks, Accrued Interest thereon and other liquid assets ..				21,296,949	8	1
Australian Consolidated Inscribed Stock for the State of Victoria (Face Value, £28,644,980 4*s.* 8 *d.*)	28,644,980	4	8			
Accrued Interest	366,794	13	9	29,011,774	18	5
Australian Consolidated Treasury Bonds and Stock (Face Value, £ 1,057,700) ..	1,048,420	0	0			
Accrued Interest	4,848	2	3	1,053,268	2	3
Credit Foncier Debentures and Stock (Face Value, £13,022,050)	13,022,050	0	0			
Accrued Interest	65,141	7	4	13,087,191	7	4
Melbourne and Metropolitan Board of Works Debentures and Stock (Face Value, £1,839,350)	1,713,627	0	0			
Accrued Interest	27,628	2	6	1,741,255	2	6
Municipal Debentures and Stock (Face Value, £2,578,380 9*s.* 5*d.*)	2,504,208	2	9			
Interest Accrued or Due	33,360	19	10	2,537,569	2	7
Mortgage Securities	1,746,533	19	7			
Properties in Possession	11,155	10	4			
War Service Homes	9,000	17	8			
	1,766,690	7	7			
Interest after provision	7,014	2	9	1,773,704	10	4
Bank Premises				960,000	0	0
				71,461,712	11	6

Profit and Loss Account for

Dr.

	£ s. d.	£ s. d.
To Interest credited to Depositors—		
Current Accounts	1,181,256 9 1	
Victorian Savings Bank Deposit Stock Accounts	52,785 14 9	
		1,234,042 3 10
,, Interest credited to Fidelity Guarantee Fund		500 0 0
,, Interest credited to Officers' Trust and Provident Funds		28,577 16 2
,, Expenses of Management		545,077 16 11
,, Expenditure on Bank Premises for Maintenance, Painting, Repairs, &c.		7,491 18 2
,, Writing down Bank Premises ..		16,100 0 0
,, Transfer to Officers' Provident Fund under General Order No. 35		6,179 0 0
,, Transfer to Reserve Fund		250,000 0 0
,, Balance—		
Forward from last year	148,743 2 11	
Profit for year	266,908 16 10	
	415,651 19 9	
Less—Transfer to Reserve Fund ..	250,000 0 0	
Forward to next year		165,651 19 9
		2,253,620 14 10

the year ended 30th June 1937

Cr.

	£ s. d.
By Balance from last year	148,743 2 11
,, Gross Income for the year, after provision for doubtful debts	2,104,877 11 11
	2,253,620 14 10

SECTION B

The Credit Foncier Department

The Credit Foncier Department was established in 1896, for the purpose of granting long-term loans to assist persons employed in agricultural, horticultural, viticultural or patroral pursuits. In 1914, advances were extended to include loans for the purchase or erection of dwellings and shops, and were again extended in 1920 for the granting of loans to persons of small means to enable them to erect or to purchase their own dwellings. And again in 1920 and 1921 the Bank Act was amended and provision was made to make loans to country industries. Such loans are secured by mortgage over land, buildings, machinery and uncalled capital.

In order to get funds to make all these advances the bank has been authorised to issue debentures to the maximum amount of twenty-nine million pounds uncalled at a time, which must be repaid within twenty-five years. The interest and the principle of these debentures is guaranteed by the Government of Victoria and is free of State income-tax but is subject to Unemployment relief tax and the Federal income-tax.

Credit Foncier Advances

The Commissioners advance money to those persons who are employed in agriculture, horticulture, viticulture or pastoral pursuits, for the following purposes :—

*(a) To acquire agricultural land.

(b) To pay off the existing liabilities on the land.

(c) To pay off moneys to the Crown in respect of such lands.

(d) To make improvements in the lands or to buy stock or machinery, etc.

The Commissioners also advance money for building or improving houses and shops. The Commissioners expect

* *The State Savings Bank of Victoria Act*, 1928. *Government Printer*, Melbourne.

the borrowers to employ the borrowed money strictly on the schemes for which it was borrowed. If it is proved to the contrary the Commissioners are authorised to confiscate the property or even sell it. Advances are given to agriculturists up to two-thirds of the improved value of the land. The Commissioners appoint valuers for valuing the property offered for security. The Commissioners are allowed to make advances from a minimum amount of £50 to a maximum of £4,000. But it is the policy of the Commissioners to advance sums much lower than this maximum, and preference is given to applicants who wish to borrow about £500. The Commissioners advance money on first mortgage security of land which is registered in the Registrar-General's Office. The Commissioners advance money only when they are satisfied by the report of their solicitors as to the title of the applicant to the property offered. The maximum period for the loans given on the security of land is thirty-five years, repayable by seventy half-yearly instalments. The period for loans on houses, etc., is limited to thirty-one-and-half years to be repayable by sixty-three half-yearly instalments.

Ordinarily the bank makes advances on the security of land up to £2,000 for a maximum period of twenty-seven-and-half years for ordinary loans and thirty-one-and-quarter years for ex-soldiers. The half-yearly instalments consist partly of interest and partly of principal. The Commissioners have prepared tables which clearly indicate the amount of interest and principal paid in each instalment and the balance of interest and principal remaining. Borrowers who are not in arrears for their half-yearly instalments may at a fixed date pay a balance or a substantial portion of the amount in any multiple of five pounds. The Commissioners may, at their option, charge interest for six months if the balance is prepaid without any notice, but this is seldom done in practice. When a borrower pays only a portion of his liabilities it does not affect the half-yearly instalments. The Commissioners have adopted

a very ingenious system. Moneys received from time to time in that form are credited to the borrower's account in their books and, on 30th June every year, interest is added on such an account, which is fixed by the Commissioners.

I was told by the General Manager that the rate of interest paid to the borrowers is generally the same as they pay on their loans. The borrowers may, with the permission of the commissioners, draw moneys from time to time from their accounts, but it is very seldom done in practice and, generally, when the moneys and interest standing on that account are sufficient to wipe off the indebtedness, it is done and the mortagaged property is freed.

The Commissioners require strict and punctual payments of the instalments and, if the half-yearly instalments are not paid within fourteen days of their becoming due, the interest on the arrears is charged at the rate of six per cent. per annum. If any borrower is in arrears for four half-yearly instalments, the Commissioners take steps to foreclose on the property. They do not allow the sale or subdivision of land without their written permission and, if any borrower sells or subdivides his land without the written permission of the commissioners, the subdivision and sale becomes void and the commissioners are authorised to sell the property if they so desire.

The Commissioners have a staff of valuers who have the necessary knowledge of the value of the land and are fully competent to judge the value of the property offered as security for the loans. The valuers when appraising the values of the securities are instructed by the commissioners to take into account the actual value of the property, having due regard to adverse seasons and the cost of artificial manures which will be necessary to prevent depreciation in the value of the property. The total appraised actual value of such property should in no case exceed :

(*a*) Twenty-five times the clear annual rental value of the land if such value is computed on the land being used exclusively for pastoral purposes, nor

(*b*) Twenty times the clear annual rental value of the land if such value is computed on the land being used for agricultural purposes.*

Interest on loans granted commences four weeks after the loans have been given. The limit of the loan on improved value for valuation purposes is £30 per acre.

The valuers before entering office have to make a declaration in writing to the effect that they will discharge their duties faithfully, impartially and to the best of their ability. They are not allowed to value properties in which they or their wives or relatives are interested. Every applicant for a loan must pay the following fees for the valuation of the property offered as security; the fees are not refunded even if the loan is not granted:

	£	s.	d.
Within 5 miles of railway station	2	10	0
Over 5 miles but not over 10 miles	3	0	0
Over 10 miles but not over 20 miles	4	0	0
Over 20 miles	5	0	0

The Commissioners advance money to discharged soldiers who served in the Great War, for similar purposes, at a rate of interest one quarter per cent. less than the ordinary rate, and the loans are granted upto three-fourths of the value of the property to be repaid in thirty years by half-yearly instalments.

Loans for Dwelling Houses

Credit Foncier housing advances, secured by a contract of sale, are made for the erection of houses for persons of small means who do not own a dwelling house, and who are in receipt of an income not exceeding £400 per annum. The principal conditions for the erection of these dwelling-houses are as follows:—

(i) The capital cost to the Commissioners of dwelling house and land—including outbuildings, fences, lighting, water-supply, drainage, sewerage and all

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* *State Savings Bank Act*, 1929, page 674; *The Victorian Statutes*, Vol. V.

other costs—must not exceed £1,000 if the dwelling-house is of wood, or £1,300 if the dwelling-house is of brick, stone or concrete; but the total cost may exceed these amounts provided the applicant pays the excess in addition to the deposit required by the commissioners.

Liabilities for street construction, etc., and for sewerage, existing at the date of the transfer to the bank, must be included in the capital cost.

(ii) The applicant must provide as deposit at least 15 per cent. of the estimated capital cost to the Commissioners; and the balance of purchase money outstanding on completion of the dwelling-house must not exceed 85 per cent. of the bank's valuation of the property, with a maximum of £850 for a wooden dwelling, of £1,000 for a brick, stone or concrete dwelling. The estimated cost of any anticipated liability for street construction, etc., and for sewerage is deducted from the amount available.

(iii) The amount provided by the bank is repayable by monthly instalments of principal and interest in 28 years. The present rate of repayment (including interest at the rate of 4½ per cent. per annum) is 10*s.* 6*d.* for each £100, but, at the end of ten years and twenty years after the date of contract, the repayment and interest rates will be reviewed; the interest rate will not, however, be increased beyond the bank's then ruling rate.

(iv) Dwelling-houses must be erected under the supervision of the bank, and in accordance with either of the following methods:—

To a plan selected from 90 of the bank's designs, and in accordance with the bank's standard specifications. A fee of £8 is charged for plans, specifications and supervision.

To plans prepared by the bank in accordance with the applicant's own design, and to the bank's

standard specifications. A fee of £12 is charged for the preliminary sketch designs, specifications and supervision.

(v) Any purchaser who is not in arrears may at any time deposit with the bank any sum to be held for future payments, and interest will be credited on such deposit at the same rate as is payable on the balance of purchase money (now 4½ per cent.).

(vi) The purchaser must personally occupy the house and cannot therefore let, lease, sell or mortgage his interest in the property without the written consent of the commissioners.

(vii) The purchaser may at any time after five years pay off the balance of his purchase money with interest to date of payment and will be given a transfer, the cost of which must be borne by him.

Since the inception of these advances in the year 1921, houses numbering 7,511 have been erected, and 3,990 have been purchased by the Credit Foncier for applicants. The amount owing by purchasers at 30th June 1937 was £5,343,842.

Loans to Companies engaged in Rural Industries

Any Company or Society which is registered under the Companies Act, 1928, or Societies registered under the law relating to Industrial and Provident Societies, and is engaged in any rural industry, can apply for a loan for the following purposes :—

(*a*) To construct works for industry.

(*b*) For purchasing and installing machinery for that industry.

(*c*) For extending the works.

(*d*) Carrying out any other necessary work connected with the industry.

(*e*) Purchasing any land for the undertaking.

(*f*) Paying off any loans incurred for the erection of works.

(*g*) For any or all of the above purposes for which the loans have not already been obtained from the commissioners.

The Companies which apply for loans have to supply the following information to the Commissioners :—

(*a*) Satisfactory evidence of their registration.

(*b*) A copy of the Articles of Assocation and Memorandum or their rules and a statement showing the number of their shareholders or members together with the amount of shares held by their members and the extent of their liabilities.

(*c*) Map and description or plan of the locality where the work exists or is intended to be constructed.

(*d*) The cost or the estimate of such works.

(*e*) The nature and cost of all the machinery and building, if it exists, or the estimate of the machinery and the building intended to be erected.

(*f*) The period within which the loans are desired.

(*g*) All other necessary information which the Commissioners may require.

If the Commissioners are satisfied they are authorised to grant loans on the conditions which they think fit and appropriate. Before the Commissioners actually grant the loan to any Company or Society they enter into an agreement with such Society or Company in the following terms :—

The Company has to specify the terms on the form of agreement stating the conditions on which the loans have been granted and will be repaid ; the rate of interest, the time of the payment of interest and also the capital are specified. In order to secure the repayment of loans and interest, the Company has to give a pledge that, in addition to the security which they have furnished to the Commissioners, the latter may, if necessary, ask for another security. The Companies have to agree that all titles to the property held by the Companies will be deposited with the Commissioners, or they will have to assign the first mortgage of the property in favour of the Commissioners. The Commissioners, in order to

secure the due performance of their duties by the Companies, take a pledge from the Companies that they will carry out the instructions of the Commissioners. The moneys advanced by them should be spent for those purposes for which they have been actually advanced. If it is found to the contrary, they are authorised to stop the instalments. Under the agreement, they possess full powers to enter upon the premises and remove machinery or any other property in order to satisfy fully their rights for the safeguarding of their money.

Depreciation Fund

In order to avoid losses arising out of the depreciation of the buildings or machinery, the Commissioners make it incumbent upon the borrowing Company that for loans granted for the construction of building or for the instalment of machinery, the Company should deposit a maximum sum of five pounds per cent. of the value of the buildings or machinery (irrespective of the amount of money borrowed) in a trust created for this purpose by the Commissioners. When the Commissioners are satisfied that the trust fund has become sufficient to cover the losses arising from the depreciation of the property, then this fund can be used with the permission of the Commissioners for repairs or other such purposes. No depreciation fund is created where loans are granted for a period not exceeding ten years.

Power of Inspection and Control

When the loans are granted to the Companies the Commissioners exercise the following powers :—

The Commissioners may appoint any person to inspect and report upon the construction of the works, or they might exercise their control for the buying of land or machinery if they think it necessary, or they may prohibit any action of the Company.

All the books of the Company will be open to the Commissioners for their inspection. Every year the Company shall furnish a balance-sheet of their accounts approved by a licensed auditor.

They may also demand any information which the directors of the Company will have to give on oath within fourteen days.

They have the power to give written notice to the head office of the Company prohibiting them from any action which they think contrary to their interest, or direct the Company for the removal or repair of certain machinery, or to remove the manager or certain officers of the Company if they think necessary.

The shares of the Company cannot be transferred without the written permission of the Commissioners, who have prior claims on the assets of the Company before any other creditor.

Loans to Companies for Fruit Storage

Loans are granted to fruit store companies for,

(*a*) construction of "fruit works".

The words "fruit work" in the Act mean "A building or erection for cold storage or for canning, pulping, drying, evaporating, grading, sorting, packing, handling or storing of fruits or vegetables or both and all buildings, packing sheds, storage sheds, offices; or to increase the land on which the fruit works are built or erect any machinery used in connection with the fruit works, or any extension of or addition to the present works or machinery."

(*b*) To purchase and install machinery in connection with the fruit works.

(*c*) The extension of existing works.

(*d*) Carrying out any other work in connection with the above purposes.

(*e*) To purchase any land for fruit works.

(*f*) For any or all of the above purposes.

The loans under this division are granted only to those companies, one-third of whose shares, both in number and in value, are held by the owners of fruit orchards of at least one acre. Further, the Commissioners require that the shareholders should possess shares to at least two-thirds of the value of the money proposed to be spent and should have paid at least one-third of their liabilities. The conditions for the

granting of the loan and supervision and control exercised by the Commissioners are the same as in the case of rural industries companies.

Loans to Companies for Undertakings dealing with certain Primary Products

The loans are advanced by the Commissioners under this division to Companies for undertakings dealing with primary products for the following purposes :—

(*a*) For constructing works in connection with the undertaking.

(*b*) For purchasing and installing machinery for such works.

(*c*) For extension of such works.

(*d*) For other necessary works in this connection.

(*e*) For purchasing land required for the undertaking.

(*f*) To discharge loans already incurred for such works from other sources and not given by the Commissioners previously.

The undertakings dealing with primary products include companies of the following kinds :—

Abattoirs and freezing works, chilling chambers and cold storage for meat, cold storage for fish ; factories for the manufacture of canned fruit, dried fruit or jam ; flax mills ; tobacco-curing sheds, etc.

Restriction of Loans

Loans are only granted to those companies of which at least one-third of the shareholders are *bona-fide* farmers and persons who are engaged in the production of any primary product supplied to the undertaking of the company ; and the members of the company must have taken at least two-thirds of the shares of the total amount which they propose to spend on such undertaking, and of this amount at least one-third must have been paid in cash. The conditions of inspection and control are the same as in other cases.

Investment of Repayments and Reserve Fund

The moneys received from the repayment of advances are invested by the Commissioners in any or all of the following

ways : (*a*) for the purchase of debentures or of debenture stock issued by them ; (*b*) for the purchase of Victorian Government stock or debentures, treasury bonds or treasury bills or any other public securities of the Commonwealth of Australia ; (*c*) the Commissioners, if they think necessary, are allowed to deposit these funds in any bank approved by the Auditor-General.

The Commissioners set aside the whole of the net profits realised during the year to a reserve fund in order to meet any possible losses in the future, and these profits can be invested in various Government securities.

The idea of helping the country industries is an excellent one, and its application to less industrially developed countries is worth supporting, as it seems a very sound way of helping deserving industries ; but unfortunately in Victoria it has not worked successfully. Since 1922 only eight loans have been given to the extent of £1,74,322, of which £1,22,282 has been repaid. I was told that these conditions are very rigid and that industries in the country districts can get financial accommodation on easier conditions from commercial banks and other financial agencies.

Working of the State Savings Bank

Besides getting information about the working of the bank from its various officers, I discussed different points in connection with the bank with the General Manager. The first peculiar thing which I noted in the working of this bank is that the operations of the bank are carried out in the name of the Commissioners.

There are five Commissioners, nominated by the Governor-in-Council, who meet once a week. The Commissioners are nominated and hold office for life. It is one of the conditions of nomination that no person can be nominated as a Commissioner who is in any way connected with any money-lending institution. All the present Commissioners, I was told, are business men who are engaged in their respective businesses during the week.

It seems a very unsatisfactory state of affairs that the Commissioners of such an important institution as the State Savings Bank should be persons who are engaged in private businesses of their own and who meet once a week for carrying out the operations of the bank. The remuneration paid to them does not seem very attractive. A Commissioner who is paid £400 a year and has to attend the meeting once a week and is himself occupied in his own business, is not likely to take a very active interest in the affairs of the bank. However, I was told that the Commissioners take a very keen interest in the affairs of the bank and are never absent from the meetings unless they are detained by some very extraordinary circumstances.

The appointment of such part-time Commissioners for life is certainly very objectionable, but I was told that this means a consistent policy, and the Commissioners feel secure of their office (which, I was told, is considered a great honour) and the attraction is not the remuneration which is offered but the dignity which the post carries. It is like the membership of the Legislative Councils and Assemblies. The General Manager was of the opinion that when Commissioners in the State Bank are appointed for life, they look only to the interest of the bank and do not yield to any unsound policy of the State, while, when a Commissioner is appointed for a limited number of years and is eligible for nomination, in many cases he might have to please those in whose hands his nomination lies. This sounds very reasonable.

The general procedure which is followed in the granting of loans under the Credit Foncier Department is that applications are received by the officer-in-charge, who, with his remarks, sends them to the Assistant General Manager, who goes through each application and forwards them to the General Manager for his approval. Approval is given by the General Manager on the recommendations of the Assistant General Manager ; generally the General Manager gives direction to his staff for approving these loans and he himself looks only into those applications which require his attention

owing to certain exceptional circunstances. Then these applications are placed before the Board of Commissioners, which meets usually every Wednesday. The Commissioners carefully examine applications, especially the reports about the security and the amount to be advanced. The Commissioners require that the valuers should supply them with detailed information about the properties offered as security. At present, the bank has eight valuers who are full-time employees of the bank and are paid £800 per year *plus* their travelling expenses. The bank has also a staff of inspectors to inspect the properties and improvements made from time to time.

The Commissioners generally grant loans on a fairly conservative basis, and I was told that there have been many instances where the recommendations made by the staff of the bank in regard to the amount to be advanced have been reduced to a lower level by the Commissioners. Sometimes differences have arisen amongst the Commissioners themselves in regard to the amount to be advanced and a decision has been reached by the majority vote.

The General Manager of the bank is an *ex-officio* member of the Board but has no right to vote. The policy of the bank is determined by the Commissioners generally in consultation with the General Manager, and in cases of differences of opinion the views of the Commissioners prevail and the General Manager has to act accordingly, but I was told that it was very rarely that the Commissioners would force anything to which the General Manager was strongly opposed.

I suggested to the General Manager that some if not all of the members of the Board should be full-time employees, or that at least the Chairman of the Board of Commissioners should be a full-time man. But he would not agree to this ; he thought that there was no necessity to have a full-time Chairman of the Board of Commissioners as he would have very little to do to occupy him all the time, unless the Chairman of the Board were an executive officer of the bank who knew the bank from A to Z. He objected to any outsider being appointed as a full-time officer of the bank because,

in his opinion, it required a long time for a man to learn the technique and all the ins-and-outs of actual management. I should have regarded it as a matter of professional pride, but I was told that the whole staff of the bank consists of junior clerks who entered the service of the bank by competitive examination when they were seventeen years of age and were promoted to the highest rank according to their efficiency. Later I discovered that this was the usual system of recruitment all over Australasia.

I asked whence the bank obtained the superior staff and was told that the superior staff consisted wholly of the junior employees of the bank (except land valuers and solicitors) who are encouraged to take a university education whilst they are in the service of the bank and are promoted according to the proficiency they achieve. The bank prefers its own men who are brought up from the beginning in its service and understand everything thoroughly. The bank employs its own solicitors to look into the legal aspect of the mortgages.

I cannot say whether any other bank in any other country would be able to work on the same principles, but I think it is worth trying, especially in those countries where economical management is desirable.

One objection to State or State-guaranteed banks is their top-heavy management, and the habit of appointing officers from one department to another where they know nothing about the new department. A very good solution has been found to this objection in Victoria by employing part-time Commissioners and its own staff which is thoroughly trained by the bank itself.

Working of the Bank: Credit Foncier Department

Since its establishment in 1896 to the present day the Credit Foncier Department has been working most excellently. Among all Australian agricultural financial institutions this bank is an example of wise management, stability and praiseworthy financial condition. Since the very beginning the bank has been following a very wise and

cautious financial policy. Unlike many of its other sister institutions it has always been free from political pressure of any kind whatsoever, and the management of the bank has always refused to be taken in by sentimental appeals for extension of cheap and easy credit. They have always made it clear that the bank is a people's institution which is run on strict commercial principles in their own interest, and has always acted on the wise axiom that if any financial institution is to succeed, politics and charity must not be allowed to come anywhere near it.

Since its establishment in 1897 to the middle of 1937, the bank has made over thirty-nine thousand loans totalling over forty-seven million pounds, out of which approximately twenty-six millions have been repaid. The following table gives detailed information about these loans:

MORTGAGE LOANS MADE BY THE BANK

Class of Loan	Commenced (Year)	Advanced	Principal Repaid	Number of Loans	Balance
		£	£		£
Farms, Civilians ..	1897	10,508,855	6,244,946	4,633	4,263,909
Farms, Returned Soldiers ..	1919	837,678	394,373	451	443,305
Dwellings and Shops, Civilians..	1911	21,067,513	12,568,565	19,701	2,498,948
Dwellings and Shops, Returned Soldiers ..	1917	6,248,045	3,665,349	5,714	2,582,696
Housing ..	1921	8,309,326	2,933,048	9,018	*5,376,278
Country Industries	1922	174,322	122,282	8	52,040
		47,145,739	25,928,563	39,525	†21,217,176

* Including land at Fisherman's Bend for future operations, £ 32,436.

† Towards the repayment of this amount, borrowers have lodged to their credit, in advance, £ 284,203, which earns interest at the rate paid on the mortgage account.

Cautious Policy of the Bank

As already remarked, the bank has been following a very cautious policy in making loans. Granting of loans was drastically curtailed during the period of depression. While

in the year 1936–37 it advanced loans to the extent of £1,183,673, during 1931–32 it advanced only £317,264.

Financial Position

The financial position of the Credit Foncier is very satisfactory. It is a great credit to the wise management of the bank that even during the darkest period of the depression, 1932, it made a net profit of £22,921. During normal years the profits of the bank are much larger. During the year 1936–37, after making full provision for doubtful debts, the bank made a profit of over twenty-eight and a half thousand pounds. The profit earned is carried to the reserve fund, which stands at an impressive figure of over half a million pounds. There is also a depreciation fund of £340,000.

The bank is charging a very low rate of interest on all these loans, *viz.*, 4½ per cent. per annum, and the percentage of borrowers who have paid their interest in full is very satisfactory indeed, as the following statement shows.

Borrowers who have paid their Interest in full

The percentages, at 30th June 1937, of those who have paid their interest to the end of the previous quarter (31st March) are as follows :—

	per cent.
Farm loans	77·4
Loans on dwellings and shops	96·3
Housing loans	97·9

The Percentages of Properties in Possession

The percentages of properties in possession to the number of loans are as follows :—

	per cent.
Farm loans	2·8
Loans on dwellings and shops	0·3
Housing loans	0·9

(The rents at 30th June, derived from properties let, yielded a gross return of 3·5 per cent. on the total principal debt in respect of all properties in possession.)

In order to fully show the financial condition of the Credit Foncier, the latest balance-sheet and profit and loss account for the year 1937 are reproduced below :—

THE CREDIT FONCIER DEPARTMENT,

Balance-Sheet,

LIABILITIES	£	s.	d.	£	s.	d.
Debentures and Debenture Stock, 3½% ..	13,000,000	0	0			
,, ,, ,, ,, 3⅝%	1,605,940	0	0			
,, ,, ,, ,, 3⅞% ..	275,920	0	0			
,, ,, ,, ,, 4½% ..	1,425,420	0	0			
,, ,, ,, ,, 5¼% (Financial Emergency Act, £4 1*s.* 4*d.* per cent.)	3,500,000	0	0			
Debentures and Debenture Stock, 5% (Financial Emergency Act, £4 5*s.* 3*d.* per cent.)	1,000,000	0	0			
	20,807,280	0	0			
Accrued Interest	117,122	16	8			
				20,924,402	16	8
Interest on Debentures, and Debenture Stock, due but not paid				3,017	19	1
Debentures matured but not presented ..				6,700	0	0
Borrowers' Payments in Advance on account of Principal, with interest added	284,203	9	7			
Other Payments in Advance not bearing interest	194	2	0			
				284,397	11	7
Sundry Amounts held in Trust				68,628	11	1
Savings Bank Department				220	19	5
Depreciation Fund				340,000	0	0
Reserve Fund				565,782	5	8
				22,193,150	3	6

THE STATE SAVINGS BANK OF VICTORIA

30th June 1937

ASSETS	£	s.	d.	£	s.	d.
Mortgage Securities—						
Farm Loans	4,069,539	2	4			
Farm Loans, Returned Soldiers ..	426,963	8	9			
Loans on Dwellings and Shops (including progress payments on houses in course of erection)	8,470,965	2	5			
Loans on Dwellings and Shops, Returned Soldiers	2,573,168	12	8			
Housing Loans (including land acquired for building purposes, and progress payments on houses in course of erection)	5,323,573	15	10			
Properties Let or Leased	268,536	17	10			
Properties in Possession	32,389	11	5			
Country Industries Loans	52,040	5	7			
	21,217,176	16	10			
Interest after Provision	10,428	3	11	21,227,605	0	9
Bank Fixed Deposit Receipts	700,000	0	0			
Accrued Interest	7,857	2	3	707,857	2	3
Discount on issue of Current Debentures and Stock	96,747	7	0			
Less Proportion written off to date ..	69,750	5	9	26,997	1	3
Sundry Debtors				1,299	16	6
Cash at Bankers				229,391	2	9
				22,193,150	3	6

Dr.

Profit and Loss Account for

	£	s.	d.
To Interest on Debentures and Debenture Stock	734,444	1	10
,, Interest on Borrowers' Payments in Advance	12,156	10	0
,, Provision for extinction of Discount on Debentures and Stock	12,199	4	11
,, Expenses of Management	107,830	19	7
,, Valuators' and Architects' Salaries and expenses ..	16,982	1	0
,, Profit for year—transferred to Reserve Fund	28,592	7	2
	912,205	4	6

Cr.

the year ended 30th June 1937

	£	s.	d.
By Gross Income, after provision for doubtful debts ..	912,205	4	6
	912,205	4	6

Chapter III

THE STATE BANK OF SOUTH AUSTRALIA

SECTION A

General Banking Department

Establishment of the Bank

The Bank was established by the State Bank Act of 24th December 1925. It commenced operations on 1st July 1926.

Departments of the Bank

The State Bank of South Australia is a State-guaranteed institution and has been established to provide long-term loans for farmers in addition to doing ordinary banking business. The activities of the bank are carried out under two separate departments.

The *General Banking Department* carries on the ordinary commercial banking business—the *Credit Foncier Department* is the most important department under which long-term loans are granted to farmers on first mortgage security of land, and funds for this purpose are raised by the issue of debentures. Under this department, loans are also granted to provide homes for persons of limited means, and loans under various other acts of the State are also granted by the bank in the Credit Foncier Department, which acts as an agency for the State for the disbursement of these loans.

General Powers of the Bank

The bank has the power: (*a*) to carry on the general business of banking; (*b*) to acquire and hold land on any tenure; (*c*) to receive money as deposits either for fixed term or on current account; (*d*) to make advances by way of loan, overdraft or otherwise to any person whatsoever; (*e*) to make advances to any Municipal Corporation, District Council, Drainage Board or Irrigation Trust or other corporate body within the State; (*f*) to discount bills and drafts;

(*g*) to issue bills and drafts and grant letters of credit; (*h*) to deal in exchange, specie, bullion, gold-dust, assayed gold and precious metals; (*i*) to borrow money; and (*j*) to do anything incidental to its powers.

Capital of the Bank

The capital of the bank has been fixed by the Act at a sum not exceeding four million pounds, which is available for all purposes of the bank. Half of this capital has been raised by the issue of debentures.

The Treasurer of the State has been authorised by the Parliament to make advances to the bank (appropriated by the Parliament) for the purpose of enabling it to defray any of the expenses incidental to the establishment of the bank, the opening of its branches, etc.

Management of the Bank

The management of the bank has been entrusted to a Board consisting of five members appointed by the Governor.

The Act provides that one member of the Board should retire at the end of the second year after the appointment of the Board. The members have been given the choice to decide (six weeks before the date of retirement) by lot, who shall retire in that year. If no decision is reached, the Governor himself declares which member shall retire that year. Each member is appointed for five years and is eligible for re-appointment for another five years. The Governor appoints one of the members as Chairman of the Board. If any member of the Board becomes a member of the Executive Council or of either House of Parliament of the State or of the Commonwealth, he ceases to hold office as a member of the Board. Other conditions for the appointment of members and their continuation in office are almost the same as in other State Banks. Three members form a quorum and the Chairman has a casting vote.

On the recommendation of the Board the Governor appoints such officers and servants of the Bank as the Board thinks necessary.

Officers of the bank are prohibited from borrowing money from the bank.

General Provisions

(1) The bank is authorised to open branches or appoint agencies in any part of the State.

(2) With the consent of the Treasurer the Board is allowed to establish a branch or branches in the United Kingdom, and may, with his consent, establish branches in any other place beyond the State.

(3) The bank may act as the agent in South Australia of any bank carrying on business in or outside South Australia.

Profits Derived from the Bank

The net profits derived by the bank are dealt with as follows: (*a*) One half is placed to the credit of a fund called the Bank Reserve Fund; and (*b*) the other half is placed to the credit of a fund called the Redemption Fund; but if there is no liability by the bank to the Treasurer with respect to any advances made by the Treasurer to the Bank, the whole of the profit is placed to the credit of the Bank Reserve Fund, which is available for the payment of any liabilities of the bank.

The Redemption Fund is used in repayment of any money advanced to the bank by the Treasurer, or in the redemption of debentures issued by the bank, and if the Redemption Fund exceeds the amount of debentures in circulation the excess may be used for the purpose of the redemption of any State debts.

The Governor of the State is responsible for the payment of all moneys due by the bank.

Issue of Debentures by the Bank

The bank is authorised to issue debentures from time to time to meet its requirements, but in no case shall the amount outstanding at a time exceed four million pounds. The debentures are issued by the bank for ten pounds or any multiple thereof, and the principal and interest on these debentures are guaranteed by the State. The debentures are redeemable at par at the date prescribed therein, but the

bank has also the power to recall the debentures and make the payment after giving one year's notice.

Working of the General Banking Department

The General Banking Department has seventeen branches and twelve agencies. The capital of this department is two million pounds. The total number of accounts at the head office and the branches is 6,239. The bank accepts moneys on current account as well as in fixed deposits. It does not accept any moneys on savings account, for which purpose there exists a separate bank called the Savings Bank of South Australia, which is altogether a distinct and separate institution managed by a separate body. Its activities will be described in a later section.

Compared with the State Savings Bank of Victoria the total amount of deposits seems very small. It has a total deposit of £663,907, of which £402,664 is on current account and £261,263 is on account on fixed deposits. No interest is allowed on current accounts but on fixed deposits a rate which varies according to the length of the period for which the money is made is paid every six months. For instance, if the deposit is only for three months, the bank allows 2½ per cent. interest, while for the deposits of one year it allows 3 per cent. The bank in this department makes advances to farmers for their current needs. During the year ending 30th June 1937 it advanced about two-and-a-quarter million pounds.

While the condition of the bank as a whole is very satisfactory and it earned a net profit every year, the general banking department has not been able to pay its way and has been run on a deficit. During the year 1936–37, while the bank as a whole showed a net profit of £16,922, this department showed a loss of £1,167. But it is claimed that owing to the services of this department the bank gets business in other departments and eventually the small loss is more than made up.

In order to show the financial position of this department, its balance-sheet and profit and loss account for the year 1936–37 are reproduced below :—

Dr. THE STATE BANK OF SOUTH AUSTRALIA,

Profit and Loss Account for

	£	s.	d.
To Charges Account	35,065	14	10
,, Interest Paid	75,969	4	8
,, Commission	33,291	5	2
,, Bad and Doubtful Debts	14,638	0	2
	158,964	4	10

Balance-Sheet as

LIABILITIES

	£	s.	d.
Capital Account	2,000,000	0	0
Deposits (Non-Interest bearing)—			
Government	2,281	19	3
Others	271,883	11	7
Deposits (Interest bearing)	128,480	8	4
Fixed Deposits	261,263	0	5
Interest Reserved	72,646	13	3
Balances due to Other Banks	287	15	6
Contingencies Account	1,571	5	4
Other Liabilities	15,860	12	1
	2,754,274	5	9

GENERAL BANKING DEPARTMENT *Cr.*

the year ended 30th June 1937

	£	s.	d.
By Interest Receivable	114,929	16	9
,, Commission	42,478	10	6
,, Contingencies	448	15	1
,, Balance Loss	1,107	2	6
	158,964	4	10

at 30th June 1937

ASSETS

	£	s.	d.
Cash	35,780	1	8
Balances due from Other Banks	73,836	3	10
Fixed Deposits at Other Banks	225,000	0	0
Advances and Bills Discounted	2,223,740	13	8
Bank Premises and Fittings	55,341	17	11
Bills and Remittances in Transit	43,281	1	9
Expenses regarding Flotation of Loans	9,943	10	5
Profit and Loss Account (Accruing Loss)	87,350	16	6
	2,754,274	5	9

SECTION B

CREDIT FONCIER DEPARTMENT

*Long-term loans for a period ranging from seven to thirty years are made on the security of first mortgages over land. Interest is charged at the rate of 4½ per cent. and the half-yearly instalments are fixed at a figure which will pay all interest and principal within the term arranged.

In cases where there is a sufficient margin of security, a loan by way of overdraft may be granted on the same security as is held for a long-term loan.

Loans to Producers

Under the provisions of the Loans to Producers' Act, the bank, with the object of encouraging rural production and effective land settlement, grants loans for the following purposes :—

To co-operative societies registered under the Industrial and Provident Societies Act, 1923, as follows :—(*a*) erection or purchase of cool stores ; (*b*) erection or purchase of factories for jam making ; (*c*) erection or purchase of fruit packing sheds ; (*d*) erection or purchase of butter, cheese or bacon factories ; (*e*) erection or purchase of any shop or market for the sale of any rural products ; (*f*) erection of silos ; (*g*) purchase of fruit-grading machinery ; (*h*) erection of wineries or distilleries ; (*i*) installation of irrigation plants ; (*j*) erection of tobacco barns or sheds, and for making additions to cool stores, distilleries, packing sheds, factories, etc.

To landholders as follows :—(*a*) erection of silos ; (*b*) clearing of scrub or timber on land held under lease or agreement from the Crown ; (*c*) fallowing of land held under lease or agreement from the Crown.

Advances to Settlers

Advances are made under the Advances to Settlers on Crown Lands Act, 1914 to 1916, for (*a*) ringbarking, clearing (including rolling or logging down, and burning), grubbing, fencing, draining, erecting or making permanent water improvements, boring for water, or erecting permanent buildings, or purchasing of stock for stocking the holding of the

* *The State Bank of South Australia Act*, 1925. *Government Printer*, Adelaide.

applicant; or for any other purpose; (*b*) discharging any mortgage already existing on the holding, on the security of (i) leases of Crown Lands; (ii) agreements with covenant to purchase Crown Lands; (iii) leases of or agreements for re-purchased lands.

Advances are not to exceed in the agreggate £850 to any one settler. Advances not exceeding £400 may be made up to the fair estimated aggregate value of the settler's lease or agreement, and any improvements already made or being made on his holding; any further amount not exceeding £250 up to three-fourths of the amount of such excess.

No advance is made to discharge an existing mortgage at an amount exceeding fifteen shillings in the pound of the fair estimated value of a lease or agreement, and the improvements already made on the holding.

Advances may be made of any amount not exceeding £200 to enable a settler to stock his holding.

Every application for an advance must be made on the Board's forms, and should contain all particulars required thereon.

Applications may be for sums of £50, or any multiple thereof, not exceeding £850.

Each application must be accompanied by a valuation fee of £1 for the first £100, and ten shillings for each additional £50 or fraction of £50 applied for.

No refund of fee is allowed if an inspection of the land offered as security has been made.

Mortgages are prepared free of charge, but the borrowers are required to pay the statutory charges in connection with their registration, transfer, or discharge. The fees are:—

Registration of mortgage ten shillings, and stamp duty two shillings and six pence per £100.

Registration of transfer or discharge of mortgage, five shillings.

The leases or agreements, as the case may be, together with the prescribed fees, must be in the possession of the Board before a mortgage can be prepared; or fees can, at the option of the Board, be added to the mortgage debt.

Repayments of loans extend over a period of forty years. Interest is charged at a fixed annual rate (notice of which is published in the " Government Gazette "), payable half-yearly. During the first five years interest only is payable, and during the remainder of the term the advance is repaid by equal half-yearly instalments, together with simple interest on the balance of the advance ; when any half-yearly payment is made within fourteen days of due date, a rebate of interest at the rate of ten shillings per cent. per annum is allowed.

Any advance may, at the option of the settler, be repaid at any time sooner than is herein provided, or may be repaid in larger instalments than those set out in the mortgage.

In cases where the security warrants it, the bank may grant further assistance by way of overdraft without disturbing the loans under the Advances to Settlers Act. Borrowers under these condition sretain all the advantages of the earlier loans.

Special Provisions for Loans to Primary Producers

An amendment was made in the Bank Act in 1935 to authorise the bank to make advances to farmers and other primary producers upon the security of a first mortgage of land in fee simple, up to two-thirds of the value of the land and improvements. In 1936 the Act was further amended to extend its provisions to make advances also on leasehold. The limit of advance on leasehold lands was fixed at one-half of the value of the property offered as security.

The Treasurer of the State has been authorised by Parliament to raise money up to an amount not exceeding in the aggregate the sum of one million pounds, by the issue and sale of inscribed stock or other securities with a maturity of fifty years. Out of the money so raised the Treasurer is authorised to make advances from time to time to the bank not exceeding two hundred and fifty thousand pounds in any one financial year, which amount is to be used exclusively for making loans to the primary producers. The bank issues to the Treasurer inscribed stock or debentures in respect of all advances made to the bank for the purpose of financing the primary producers. These debentures may be renewed at

maturity by the Treasurer at his discretion. The bank from time to time, as it receives money in repayment of advances, has to repay it to the Treasurer, and the Treasurer then returns to the bank for cancellation the State Bank debentures for an amount equal to the sum so repaid to him by the bank. The Treasurer may readvance moneys to the bank, and the bank may use them for making further advances. The bank makes advances to the farmers out of these funds on the following terms :—

(*a*) The land must be unencumbered.
(*b*) No advance to exceed two-thirds of the value, as determined by the bank's expert valuers, in the case of land held in fee simple and one-half if the land is a leasehold.
(*c*) The maximum amount that can be advanced to anyone applicant is £5,000.
(*d*) The applicant has to pay the valuation fee and other sundry expenses.

The Act allows the bank to grant loans to the primary producers for a period not exceeding thirty years. However, the bank prefers to grant loans for a period of few years less than the maximum period authorised by the Act. The interest charged on these advances is as follows :—(*a*) for the first 15 years, or if the advance is for less than 15 years, for the full term of the advance, at the rate agreed between the bank and the borrower at the time of making the advance ; (*b*) for that part of the term of advances which is in excess of 15 years, at such rate as is fixed from time to time by the bank.

Borrowers are allowed to repay their advances at any time they like. Any profits made by the bank in any year in respect of these advances are to be placed to the credit of a reserve fund and are to be utilised to meet future losses (if any) in respect of such advances. This fund cannot be used in any business of the bank except transactions connected with such advances.

Since the inception of this Act in 1935, £485,774 has been advanced to 184 applicants. During the year 1936–37 the profit earned by these advances was £718, the entire amount of which was transferred to the reserve fund.

Home Loans

Under the Advances for Homes Act, 1925–34, power is given to the bank to make advances to persons of limited means to provide homes for themselves, and applies only to those in receipt of incomes not exceeding £450 per annum, of which at least 80 per cent. should have been derived by personal exertion.

Advances are made to the extent of six-sevenths of the valuation of the security for the purpose of enabling a borrower: (*a*) to purchase land and build a dwelling house ; (*b*) to build or enlarge a dwelling house on any land held by such person ; (*c*) to purchase a house and land occupied therewith as a home; (*d*) to discharge any mortgage existing upon a holding.

Parents of two or more children under the age of sixteen years may obtain an advance for any of the above purposes, to the extent of the valuation of the security on payment of a deposit of £25.

The maximum amount that can be advanced is £700, which must be repaid within twenty-five years.

Interest is charged at the rate of 5 per cent. per annum, subject to a rebate of $\frac{1}{2}$ per cent., if the full amount is paid on or before the eighth of the month, and is payable monthly, together with a portion of the principal, by uniform instalments. Borrowers may pay any further amount in reduction of the advance, and thereafter interest is reduced proportionately.

Since the inauguration of this scheme in 1925 to date the bank has advanced over nine million pounds, of which over four million pounds have been repaid.

Other Advances by the Bank

Besides the types of loans which have been described in the previous pages, the bank makes several other types of loans. These loans are advanced by the bank as an agent of the State, except in the case of loans made under the Commonwealth Housing Scheme, for which it acts as an agent of the Commonwealth Government. The funds for these loans are provided by the State, and instead of entrusting them to the various departments, the services of the bank have been

utilised, for which it is paid a special fee by way of commission. It is considered that the distribution of any type of State Funds is better done by the bank than by the departments concerned.

The following other loans are made by the bank :—

(*a*) Advances under the Commonwealth Housing Scheme.
(*b*) Advances for rainsheds and tanks.
(*c*) Advances for netting and vermin-proof material under the Vermin Act.
(*d*) Loans for fencing and water piping.
(*e*) Advances to boy emigrants.
(*f*) Advances under the Frost Relief Act.
(*g*) Loans under the Agricultural Graduates Land Settlement Act.

The above list is pretty comprehensive, and shows that the State caters and provides financial help for those farmers who stand most in need of such help for almost every type of agricultural necessities. Space does not permit to give any description of all the types of loans. However, we shall make brief mention of the loans made under the Agricultural Graduates Land Settlement Act.

Agricultural Graduates Land Settlement Act

This Act was passed in 1922 to encourage the graduates of agricultural colleges to settle on land and to provide financial help to those graduates who could not settle on the land without the Government's help.

We thought that the graduates in India only were a bit fastidious and were averse to settling down as farmers. But we find the same old story repeated in Australia. It seems that an Australian agricultural graduate is not very keen to settle on the land and prefers a more secure job. Since the inception of the Act up to 1936–37 only loans to the extent of £3,252 have been advanced to twelve settlers.

The Financial Position of the Credit Foncier Department

The financial position of this department seems very satis factory. During the year 1936–37 it showed a net profit of £17,310. In order to fully show its financial condition we reproduce below its latest balance-sheet and profit and loss account :—

THE STATE BANK OF SOUTH AUSTRALIA,

Dr. *Profit and Loss Account for*

	£	s.	d.	£	s.	d.
To Interest payable on Mortgage Bonds, etc., Interest paid and accrued (net)				38,282	14	2
,, Expenses of Management—						
Board Fees	1,200	0	0			
Salaries	26,249	2	9			
Audit Fees	220	0	0			
Inspections, Stationery, etc. ..	5,744	9	0	33,413	11	9
,, Amounts written off—						
Flotation Expenses (H. M. Treasury Capital)	1,026	15	9			
Flotation Expenses, Inscribed Stock and Debentures ..	502	8	0			
Mortgage Reserve Account ..	1,487	15	6			
Depreciation in Value of Plans, Furniture, etc.	405	9	5			
Reverted Property (Maintenance and Revenue Account) net loss	1,816	1	0	5,238	9	8
Balance, net profit on 30th June 1937				17,311	10	6
				94,246	6	1
30th June—Transferred to Cumulative Sinking Fund Reserve Account ..						
(*a*) Annual Appropriation ..	2,500	0	0			
(*b*) Accrued Interest to 30th June 1937	3,315	0	0	5,815	0	0
Balance				11,496	10	6
				17,311	10	6

CREDIT FONCIER DEPARTMENT

the year ended 30th June 1937 *Cr.*

	£	s.	d.	£	s.	d.
By Interest receivable on Loans—Interest received and accrued (net) ..				58,526	1	2
,, Interest on Fixed Deposit				1,237	3	4
,, Interest accrued on Cumulative Sinking Fund Reserve				3,315	0	0
,, Fees after allowing for payment ..				1,849	16	3
,, Miscellaneous Revenue				599	11	1
,, Rent				3,720	18	4
,, Commission on Administration, Advances for Homes	21,000	0	0			
,, Commission on Administration, Commonwealth Housing Scheme ..	1,033	16	5			
,, Commission on Administration, Loans to Producers	600	0	0			
,, Commission on Administration, State Bank Act Amendment Act ..	1,446	5	6			
,, Commission 10 per cent. on Insurance Premiums received	917	14	0			
				24,997	15	11
				94,246	6	1
,, Balance brought down				17,311	10	6
				17,311	10	6

Balance-Sheet as

LIABILITIES

	£	s.	d.	£	s.	d.	£	s.	d.
Capital Account—									
Mortgage Bonds, Debentures and Inscribed Stock sold				5,480,999	0	0			
Less Repurchased and Cancelled ..				4,590,226	0	0			
							890,773	0	0
Interest on Mortgage Bonds, Debentures, and Stock—									
Unpaid, due 1st May 1937 ..				5	19	0			
Accrued to 30th June 1937 ..				8,638	16	11			
							8,644	15	11
Mortgage Reserve Account							2,000	0	0
Prepaid Interest on State Advances ..							319	18	0
Insurance Fund							27,665	15	3
Balance of Fees Held							161	1	5
Balance of Deposits, &c.							1,755	4	0
Accounts due, 30th June, and unpaid ..							500	19	6
Unclaimed Moneys Account							418	11	2
Cumulative Sinking Fund Reserve Account							20,815	0	0
Suspense Account—Interest on Sinking Fund Investment Account							1	6	6
Balance of accumulated profits at 30th June 1936				430,087	3	1			
Balance brought down from Profit and Loss Account at 30th June 1937	17,311	10	6						
Less Transferred to Cumulative Sinking Fund Reserve—Annual Appropriation £2,500; Accrued Interest to 30th June 1937 3,315	5,815	0	0						
				11,496	10	6			
							441,583	13	7
							1,394,639	5	4

at 30th June 1937

ASSETS

	£	s.	d.	£	s.	d.	£	s.	d.
State Advances ..	4,913,873	10	5						
Less Repayments ..	3,881,418	4	3						
Advances Outstanding				1,032,455	6	2			
Less Instalments due and Outstanding				68,286	10	5			
							964,168	15	9
Properties Reverted to Board of Management							44,475	9	11
Reverted Property Revenue and Maintenance Account							75	0	0
Sundry Debtors—	£	s.	d.						
Arrears of Principal ..	68,286	10	5						
Arrears of Interest ..	38,272	9	5						
Arrears of Insurance	302	17	5						
				106,861	17	3			
Sundry Accounts				136	13	9			
							106,998	11	0
Accrued Interest—									
Interest accrued to 30th June 1937, on State Advances				12,837	16	10			
Interest accrued to 30th June 1937, on Inscribed Stock				86	10	11			
Interest accrued to 30th June 1937, on Fixed Deposit				290	1	4			
							13,214	9	1
Sundry amounts disbursed to be refunded—									
Fees				61	9	3			
Soldiers' Rates, etc.				555	16	9			
							617	6	0
Accounts paid in advance							131	19	10
Commission accrued account Administration, Commonwealth Housing Scheme ..				1,033	16	5			
Commission accrued account Administration, State Bank Act Amendment Act				1,446	5	6			
							2,480	1	11
Office Furniture and Fittings, etc. ..							7,724	2	4
Premises Account—									
Premises, Old				16,603	18	7			
Premises, New Building				107,591	4	7			
							124,195	3	2
H. M. Treasury—Inscribed Stock—Insurance Fund Deposit							10,050	0	0
Flotation Expenses H. M. Treasury—*Dr.* Balance				1,837	16	10			
Flotation Expenses Inscribed Stock and Debentures—*Dr.* Balance				1,004	16	0			
							2,842	12	10
Sinking Fund Investment Account ..							20,815	0	0
Cash at Bank				46,850	13	6			
Fixed Deposit				50,000	0	0			
							96,850	13	6
							1,394,639	5	4

Balance-Sheet as

LIABILITIES

	£ s. d.	£ s. d.	£ s. d.
Capital Account—			
Mortgage Bonds, Debentures and Inscribed Stock sold		5,480,999 0 0	
Less Repurchased and Cancelled ..		4,590,226 0 0	
			890,773 0 0
Interest on Mortgage Bonds, Debentures, and Stock—			
Unpaid, due 1st May 1937 ..		5 19 0	
Accrued to 30th June 1937 ..		8,638 16 11	
			8,644 15 11
Mortgage Reserve Account			2,000 0 0
Prepaid Interest on State Advances ..			319 18 0
Insurance Fund			27,665 15 3
Balance of Fees Held			161 1 5
Balance of Deposits, &c.			1,755 4 0
Accounts due, 30th June, and unpaid ..			500 19 6
Unclaimed Moneys Account			418 11 2
Cumulative Sinking Fund Reserve Account			20,815 0 0
Suspense Account—Interest on Sinking Fund Investment Account			1 6 6
Balance of accumulated profits at 30th June 1936		430,087 3 1	
Balance brought down from Profit and Loss Account at 30th June 1937	17,311 10 6		
Less Transferred to Cumulative Sinking Fund Reserve—Annual Appropriation £2,500; Accrued Interest to 30th June 1937 3,315	5,815 0 0		
		11,496 10 6	
			441,583 13 7
			1,394,639 5 4

at 30th June 1937

ASSETS

	£ s. d.	£ s. d.	£ s. d.
State Advances ..	4,913,873 10 5		
Less Repayments ..	3,881,418 4 3		
Advances Outstanding		1,032,455 6 2	
Less Instalments due and Outstanding		68,286 10 5	
			964,168 15 9
Properties Reverted to Board of Management			44,475 9 11
Reverted Property Revenue and Maintenance Account			75 0 0
Sundry Debtors—	£ s. d.		
Arrears of Principal ..	68,286 10 5		
Arrears of Interest ..	38,272 9 5		
Arrears of Insurance	302 17 5		
		106,861 17 3	
Sundry Accounts		136 13 9	
			106,998 11 0
Accrued Interest—			
Interest accrued to 30th June 1937, on State Advances		12,837 16 10	
Interest accrued to 30th June 1937, on Inscribed Stock		86 10 11	
Interest accrued to 30th June 1937, on Fixed Deposit		290 1 4	
			13,214 9 1
Sundry amounts disbursed to be refunded—			
Fees		61 9 3	
Soldiers' Rates, etc.		555 16 9	
			617 6 0
Accounts paid in advance			131 19 10
Commission accrued account Administration, Commonwealth Housing Scheme ..		1,033 16 5	
Commission accrued account Administration, State Bank Act Amendment Act		1,446 5 6	
			2,480 1 11
Office Furniture and Fittings, etc. ..			7,724 2 4
Premises Account—			
Premises, Old		16,603 18 7	
Premises, New Building		107,591 4 7	
			124,195 3 2
H. M. Treasury—Inscribed Stock—Insurance Fund Deposit			10,050 0 0
Flotation Expenses H. M. Treasury—*Dr.* Balance		1,837 16 10	
Flotation Expenses Inscribed Stock and Debentures—*Dr.* Balance		1,004 16 0	
			2,842 12 10
Sinking Fund Investment Account ..			20,815 0 0
Cash at Bank		46,850 13 6	
Fixed Deposit		50,000 0 0	
			96,850 13 6
			1,394,639 5 4

Balance-Sheet as

LIABILITIES

	£ s. d.	£ s. d.	£ s. d.
Capital Account—			
Mortgage Bonds, Debentures and Inscribed Stock sold		5,480,999 0 0	
Less Repurchased and Cancelled ..		4,590,226 0 0	
			890,773 0 0
Interest on Mortgage Bonds, Debentures, and Stock—			
Unpaid, due 1st May 1937 ..		5 19 0	
Accrued to 30th June 1937 ..		8,638 16 11	
			8,644 15 11
Mortgage Reserve Account			2,000 0 0
Prepaid Interest on State Advances ..			319 18 0
Insurance Fund			27,665 15 3
Balance of Fees Held			161 1 5
Balance of Deposits, &c.			1,755 4 0
Accounts due, 30th June, and unpaid ..			500 19 6
Unclaimed Moneys Account			418 11 2
Cumulative Sinking Fund Reserve Account			20,815 0 0
Suspense Account—Interest on Sinking Fund Investment Account			1 6 6
Balance of accumulated profits at 30th June 1936		430,087 3 1	
Balance brought down from Profit and Loss Account at 30th June 1937	17,311 10 6		
Less Transferred to Cumulative Sinking Fund Reserve—Annual Appropriation £2,500; Accrued Interest to 30th June 1937 3,315	5,815 0 0		
		11,496 10 6	
			441,583 13 7
			1,394,639 5 4

at 30th June 1937

ASSETS

	£ s. d.	£ s. d.	£ s. d.
State Advances ..	4,913,873 10 5		
Less Repayments ..	3,881,418 4 3		
Advances Outstanding		1,032,455 6 2	
Less Instalments due and Outstanding		68,286 10 5	
			964,168 15 9
Properties Reverted to Board of Management			44,475 9 11
Reverted Property Revenue and Maintenance Account			75 0 0
Sundry Debtors—	£ s. d.		
Arrears of Principal ..	68,286 10 5		
Arrears of Interest ..	38,272 9 5		
Arrears of Insurance	302 17 5		
		106,861 17 3	
Sundry Accounts		136 13 9	
			106,998 11 0
Accrued Interest—			
Interest accrued to 30th June 1937, on State Advances		12,837 16 10	
Interest accrued to 30th June 1937, on Inscribed Stock		86 10 11	
Interest accrued to 30th June 1937, on Fixed Deposit		290 1 4	
			13,214 9 1
Sundry amounts disbursed to be refunded—			
Fees		61 9 3	
Soldiers' Rates, etc.		555 16 9	
			617 6 0
Accounts paid in advance			131 19 10
Commission accrued account Administration, Commonwealth Housing Scheme ..		1,033 16 5	
Commission accrued account Administration, State Bank Act Amendment Act		1,446 5 6	
			2,480 1 11
Office Furniture and Fittings, etc. ..			7,724 2 4
Premises Account—			
Premises, Old		16,603 18 7	
Premises, New Building		107,591 4 7	
			124,195 3 2
H. M. Treasury—Inscribed Stock—Insurance Fund Deposit			10,050 0 0
Flotation Expenses H. M. Treasury—*Dr.* Balance		1,837 16 10	
Flotation Expenses Inscribed Stock and Debentures—*Dr.* Balance		1,004 16 0	
			2,842 12 10
Sinking Fund Investment Account ..			20,815 0 0
Cash at Bank		46,850 13 6	
Fixed Deposit		50,000 0 0	
			96,850 13 6
			1,394,639 5 4

Chapter IV

THE SAVINGS BANK OF SOUTH AUSTRALIA

The Savings Bank of South Australia is quite a distinct and separate institution, and must not be confused with the State Bank of South Australia, as it has no connection with the State Bank whatsoever. This Bank was first established in 1848.

The bank is managed by a Board of Trustees consisting of six persons appointed by the Governor. The trustees elect every year their own chairman. Trustees have to attend the meeting of the Board for which a fee of three guineas is paid to them, except the chairman, who is paid four guineas. No trustee is paid a fee for more than two meetings in a week, even if the number of meetings is more than two. If any trustee becomes a director of any banking company transacting business in the State, or is absent without leave for four consecutive meetings of the board, *ipso facto* the office of the trustee becomes vacant. Trustees are not allowed to borrow any money from the bank.

Business of the Bank

The following types of account may be opened at any office of the bank in South Australia: (1) An individual account, in one's own name, operated by himself. (2) A joint account in the name of one or more persons to be operated upon by any one or all of them. This type of account is particularly convenient for husband and wife. (3) A trust account in one's own name or in one's own name and that of one or more other persons in trust for another person or persons. (4) An estate account. If a person is an executor or administrator of an estate, he may open an account in the name of that estate to be operated directly by him. (5) A special purpose account. A person may open an account for any definite purpose. It is not necessary to name the purpose. All that a person has to do is that he has to sign a contract card agreeing to deposit a certain sum at regular periods for a

definite term, and withdrawals during the term are not permitted except in cases of necessity.

Deposits

A sum not less than one shilling nor more than one thousand pounds may be deposited, but the accumulated deposit must not exceed one thousand pounds. Depositors may deposit money at any branch or agency of the bank by producing their pass-book, and the money is transferred to their account free of charge. The bank has 51 branches and 365 agencies throughout the State.

The Penny Bank Department

In order to foster the spirit of savings in the school-children, the bank has opened a Penny Bank Department. Agencies of the bank are conducted at nearly all the State schools and in many private schools. School-children, whether able to write or not, may open accounts, and make deposits from one penny to one pound at the school. In 1937 the number of these agencies was 1,193. There were over 99,000 depositors, and the balance at their credit amounted to £141,611. It is very gratifying to note that school teachers take a keen interest in this work. In order to create a healthy spirit of rivalry, the bank offers "thrift shields" to the schools with the largest number of accounts, and there is always a keen competition to win these shields. To encourage savings in the homes, the bank distributed over sixteen thousand boxes at the price of sixpence each and issued over eight and a half thousand gratis to new-born children. The contents of 17,846 boxes opened during 1937 amounted to £32,399, an average of £1 16*s.* 3*d.* per box. The bank has also been alive to the necessity of awakening the spirit of the masses and inculcating the habit of saving in them. With this idea in view the bank distributed over three and a half million pay envelopes on which suitable thrift appeals were printed to fifteen hundred factories and business establishments free of charge. The workers get their wages in these envelopes, and week after

week read the message which reminds them the importance of savings. The bank has also a system of postal banking. This system has been recently introduced and has over three hundred accounts with balances at credit totalling about four thousand pounds. These facilities are available only to persons who reside at places where the bank is not represented. Such banking is free of cost to depositors.

The total number of all types of accounts is over fifty-seven and a half thousand, and the total amount standing to their credit is over twenty-three and a half million pounds.

Rates of Interest

On depositor's balance from one pound to five hundred the rate of interest allowed is two and three-quarters per cent., and from £501, to £1,000 a slightly reduced rate of two and a half per cent. is offered.

Percentage of Accounts to Population

Estimating the population of the State on 30th June 1937, at 588,500, the proportion of interest-bearing accounts to population was sixty for every hundred persons, and including special purpose and penny bank accounts, seventy-seven for every hundred persons.

Facilities for withdrawal

There are no hard and fast rules regarding the withdrawal of money. Moneys can be withdrawn at any time on demand. Only in cases of large sums one day's notice is required. Liberal facilities are provided for inter-State withdrawals.

The depositors have absolute confidence in the bank, as the principal and interest are guaranteed by the Government of South Australia.

The financial position of the bank is very sound. During the year 1936-37 it earned a net profit of over ninety-five thousand pounds, and the reserve fund had over one million pounds. We reproduce below the balance-sheet to show the position of the bank more fully.

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[1] The Savings Bank of South Australia, *Annual Report for the year ended 30th June 1937.*

THE SAVINGS BANK OF SOUTH AUSTRALIA

GUARANTEED BY THE GOVERNMENT

Balance-Sheet, 30th June 1937

LIABILITIES	£	s.	d.	ASSETS	£	s.	d.
epositor's Balances, with Interest thereon ..	23,416,629	15	3	Cash at Head Office, Branches, Agencies and at Bankers	2,107,457	15	3
enny Bank Depositors' Balances, with Interest thereon	140,523	5	1	Bank Fixed Deposits	4,379,500	0	0
rovision for Interest Accrued on Depositor's Balances from 7th to 30th June	40,000	0	0	Australian Consolidated Inscribed Stock ..	12,732,241	11	2
epositors' Balances not bearing Interest ..	31,604	2	3	State Bank Inscribed Stock	198,181	3	11
eserve Fund	940,000	0	0	Corporation Debentures, etc.	414,356	15	7
pecial Appropriation	800,000	0	0	Mortgage Loans	5,474,570	4	3
					25,306,307	10	2
etiring, Long Service Leave and Fidelity Guarantee Funds	205,883	7	4	Interest accrued on Investments	235,901	4	3
gency Repayment Warrants in transit ..	5,474	0	0	Inter-State Transfers—Due by other Banks and Savings Banks	1,274	7	1
arked Cheques outstanding	16,150	18	7	Freehold Estate	56,433	18	11
nter-State Transfers—Due to other Banks and Savings Banks	4,012	17	1	Bank Premises and Furniture	100,000	0	0
gent's Commission—Balance due but not paid	4,418	0	3				
rofit and Loss Account—Balance Carried Forward	95,220	14	7				
	25,699,917	0	5		25,699,917	0	5

CHAPTER V

THE RURAL BANK OF NEW SOUTH WALES

THE Rural Bank of New South Wales was established as an independent institution in December 1932. Previous to that date the bank was a distinct department of the Government Savings Bank of New South Wales. When the Government Savings Bank of New South Wales was taken over by the Commonwealth Savings Bank, the present Rural Bank was established, as mentioned above, as an independent institution. The Bank is controlled by a Board of three whole-time Commissioners, and is carrying on the ordinary business of banking. It has thirty-seven branches throughout the State. Deposits are received on current as well as fixed account. For deposits received on fixed account the bank allows a rate of interest varying from two to three per cent. per annum, according to the length of period for which the money is deposited, as, for instance, the rate for three months' deposit is two per cent., for one year's deposit, two and three-quarters per cent., and two years, three per cent. On 30th June 1936, the bank had 8,471 current accounts with a balance of £731,438, and 218 fixed deposit accounts with a balance of £67,599. The principal functions of the bank are to grant credit to agricultural, pastoral and primary producers and to assist industries immediately associated with rural pursuits. For the purpose of making long-term loans, the bank is authorised to borrow funds by the issue of debentures to the extent of five million pounds, uncalled at any one time, the principal and interest of which is guaranteed by the Government of New South Wales.

Advances and Overdrafts

Applicants for advances or overdrafts call at the nearest branch of the bank and discuss the proposition with the manager. They are not expected to hand their applications over to agents, or other third parties, as the Commissioners desire applicants to approach the bank direct. Advances

are made by the Rural Bank to eligible applicants in any of the following ways: (*a*) long-term loans repayable by equal half-yearly instalments, including interest and part of the principal, spread over terms up to thirty-one years; (*b*) fixed loans for definite terms not exceeding five years, during which interest only is payable, the loan being repayable at the end of the term; (*c*) overdraft on current account, interest being charged on the daily balance. Such accounts are operative by cheque and may be overdrawn up to the limit fixed in each case; (*d*) a combination of the above giving the advantages of each.

Long-term and Fixed Loans

The security for such loans must be first mortgage of freehold land, or any of the tenures created by the Crown Lands Acts. Stock, plant, machinery, crops, etc., are not acceptable security for these classes of loans. Loans are granted for the following purposes: (*a*) to pay off existing encumbrances on, or to purchase the land offered as security; (*b*) to make improvements on the land, or to improve and develop or utilise the agricultural or pastoral resources of the land, or to enable the applicant to carry on agricultural or pastoral pursuits; (*c*) to build a home upon the land; (*d*) to pay off money owing to the Crown in respect of the land.

Advances are limited to a maximum amount, fixed by the Commissioners from time to time. The amount advanced on freehold, or any certified tenures under the Crown Lands Acts, does not exceed two-thirds of the bank's valuation of the security. On uncertified tenures under the Crown Lands Acts the advance made is based on the Bank's valuation of the improvements thereon effected or paid for by the applicant, but does not exceed two-thirds of the bank's estimate of the sale value of the security. Advances on orchard, poultry farm and market garden securities are made on a more conservative basis. Applications must be accompanied by a valuation fee which varies from three to five

pounds according to the distance from a railway station or shipping port. The distance in each case is computed as from the homestead.

Where portions of the security are widely separated and form two or more properties which involve separate inspections, two or more of such fees, as the case may be, must accompany the application. A small charge, varying with the nature of the security offered and the amount of the loan, is made for the investigation of the title to such security, and the preparation and completion of the necessary documents. In addition, the applicant must pay search and registration fees and other out-of-pocket expenses. The rate of interest is fixed by the Commissioners when a loan is granted and is subject to revision every five years. Interest is charged only from the date the loan is actually made. At present (1938) the rate of interest for long-term and fixed loans is $4\frac{1}{2}$ per cent. per annum. Loans may be repaid on any day fixed for the payment of instalments or interest, or amounts of five pounds or any multiple thereof may be repaid at any time provided the borrower is not in arrears with his instalments or interest. Interest is allowed on such partial repayments at the rate charged in the mortgage.

Overdrafts

Overdrafts on current account, under the Bank Act, are granted only to agricultural or primary producers, or to persons carrying on industries immediately associated with rural pursuits. As the objects of the Rural Bank are to promote settlement and assist primary production, the purpose for which overdrafts are required must come within the scope of those objects. For overdrafts, the Commissioners prefer as the principal security, land, either freehold or any tenure under the Crown Lands Acts, but any other security may be submitted as collateral. On land, the basis of lending is the same as for long-term loans, but a larger margin is generally required for other classes of security. If the Commissioners require inspection of the security by a

valuer, the applicant is required to pay a valuation fee on the same scale as for long-term and fixed loans. The charge for investigation of title, etc., applies also to overdrafts. Interest is charged on the overdrawn daily balance at rates notified from time to time. The rate at present is $4\frac{1}{2}$ per cent. per annum. Overdrafts are on current account. Any repayments may be again withdrawn, subject to the limit fixed by the Commissioners. No definite term is fixed for the continuance of overdraft limits, which are subject to periodical revision and possible reduction according to the circumstances of each case.

Combined Long-Term Loans and Overdrafts

Advances may be granted, if desired, partly by long-term loan, repayable as explained under that heading, and partly by overdraft on current accounts. Such a course enables a borrower to have the convenience of a current account for general working whilst he is improving his position by the gradual repayment of the long-term loan.

Since the inception of these advances, the bank has advanced over twenty-eight million pounds to the farmers.

Advances for Homes Department

The operations of the Advances for Homes Department of the bank are conducted under three divisions. Under the first division loans are granted to the maximum amount of £1,000 or 75 per cent. of the bank's valuation of the land and proposed dwelling. Under the second division, the Commissioners arrange for the erection of houses for those applicants whose applications are approved. Applicants have to provide ten per cent. of the money themselves. The Commissioners, in approved cases, provide the balance up to £1,000. The Commissioners are also authorised to make advances under this division to farmers for the erection on their properties of dwellings for themselves or their employees. Under the third division loans are advanced by the Commissioners from the Commonwealth Housing Fund for the following purposes: (*a*) to erect or enlarge a dwelling; (*b*) to purchase a dwelling

already erected; (*c*) to discharge disadvantageous mortgages. Advances under this division are made up to £1,800 or 90 per cent. of the bank's valuations of the property, to persons in receipt of incomes not exceeding £12 per week. The Commissioners under this division are allowed to erect houses for approved applicants as in the second division up to £1,800.

The part played by the bank in this connection is indicated by the fact that for the financial year ending June 30th, 1936, the total amount of bank loans represented 21·4 per cent. of the total cost of all dwellings (excluding flats) erected in New South Wales. These loans have been of immense benefit to people of small means, and have enabled them to have their own houses at a very moderate cost to themselves. The annual instalments which the borrower has to pay during the currency of the loan to the bank are in many cases smaller than the rents which one would have to pay for a rented house. That means after twenty years or so in which period all the instalments have been paid, the borrower becomes an owner of the house, which is a very great service indeed.

Agency Department

The function of the bank in the Government Agency Department is that of a statutory agent for the Crown, and the finances of this Department are entirely separate from those of the bank proper. The bank is only responsible for the administration of this Department, the funds of the Agency being Crown moneys. The Government reimburses the bank for the cost of administration. In pursuance of the provisions of the Rural Bank (Agency) Act, 1934, nine agencies have been vested in the Government Agency Department, *viz.*, (1) Building Relief Agency, (2) Advances to Settlers' Agency, (3) Farmers' Relief Agency, (4) Government Guarantee Agency, (5) Government Housing Agency, (6) Irrigation Agency, (7) Rural Industries Agency, (8) Home Building Scheme Agency, and (9) Closer Settlement Agency.

Building Relief Agency

Loans from this agency are made for general repairs and improvements to private dwellings or extension thereof; or erection of small houses in rural areas; the construction, extension and renovation of public recreation grounds and the erection of halls of public and civic character.

Advances to Settlers' Agency

Advances are made to deserving farmers through this agency for the purchase of stock and plant and improvements of a permanent nature to holdings in rural areas. The primary object of these loans is to provide employment in country districts and, at the same time, assist in the development of rural industries.

Farmers' Relief Agency

This agency administers the financial activities of the Farmers' Relief Board, which makes all decisions concerning the granting and removing of stay orders, making advances, etc.[1]

Government Guarantee Agency

The Advances to Settlers (Government Guarantee) Act, 1928, empowered the Government Guarantee Board to guarantee the accounts of settlers who obtain accommodation from financial institutions. If the farmers are not able to meet their liabilities, the Government undertakes to meet any losses incurred by the financial institutions in granting accommodation to these settlers.

Government Housing Agency

The activities of this agency have been restricted in the past to the collection of repayments in respect of loans granted to the farmers by the Government Housing Board. But now it has been also entrusted to make advances for repairs, etc.

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[1] For detailed working of the Farmers' Relief Board in New South Wales, see Qureshi, A. I., *The Farmer and His Debt*.

Irrigation Agency

The bank through this agency administers the financial relations of the Crown with settlers in the irrigated areas. The agency is also responsible for collection of debts to the Crown in respect of advances made for shallow bores throughout the State, and also for charges for water supplies to landowners.

Rural Industries Agency

This agency makes advances to settlers (principally wheat growers) for the purchase of essential seasonal requirements and to assist them to carry on until they sell this wheat. It also makes advances to small graziers and dairy farmers for the improvement of flocks and herds, and for the purchase of selected breeding animals.

Closer Settlement Agency

Loans are made in this agency to enable and assist borrowers to purchase land which is to be used for the purpose of agricultural or dairy pursuits, and exploited intensively.

The general idea underlying the creation of the Government Agency Department within the bank was to co-ordinate the activities of various Government lending organisations under one control, and thereby provide a more efficient service to borrowers. It was also considered that an institution engaged in banking would be better able to administer the various loans and attend to the collection of repayments than if several organisations were attempting to do so at the same time, to the inconvenience and discomfort of the debtors.

It is interesting to note that the result of the first complete year's operations of the Government Agency Department fully achieved its object. The collection of money made by the agencies during one year amounted to £1,039,465 as compared with £653,985 received by the various Government departments in the year previous to the agency. Over five and three-fourths million pounds have been advanced in these various agency departments. The sum due to the department may be conveniently classified under the following four

heads : (*a*) Sums due in relation to advances which were made with the primary object of relieving unemployment (Building Relief Agency and Advances to Settlers Agency loans) ; (*b*) sums due in relation to advances which were made with the primary object of granting financial assistance to agricultural and pastoral industries during years of drought or low prices (Farmers' Relief Agency, Farmers' Guarantee Agency, and Rural Industries Agency) ; (*c*) sums due in relation to advances made and assistance granted in respect of housing during periods of depression and housing shortage, and to stimulate employment in the building and allied industries (Government Housing Agency and Home Building Scheme Agency) ; and (*d*) sums due in relation to advances which were made with the primary object of establishing settlers on the "irrigation areas" and for closer settlement of land (Irrigation Agency and Closer Settlement Agency).

Chapter VI

THE AGRICULTURAL BANK OF TASMANIA

The Agricultural Bank of Tasmania was established in 1907 by the State Advances Act, 1907, to make advances to settlers. Before the establishment of the bank, advances were made to settlers by the State under the State Advances on Land Act, 1898, which Act was repealed in 1907.

The chief object of the establishment of this bank was the promotion of cultivation and development of the agricultural industry in Tasmania.

The management of the bank was entrusted to three trustees who were appointed by the Governor. The trustees were to hold office during good behaviour. The active management of the bank was entrusted to a manager who was appointed by the Governor on the recommendation of the trustees.

The Act stipulated that no person should be appointed as a trustee, manager or officer who was interested in the management of any money-lending institution.

Trustees, managers and other employees of the bank are prohibited from borrowing money, either directly or indirectly from the bank.

Amendment of the Act

The State Advances Act, 1907, was amended in 1928. The trustees were abolished and a Board was constituted instead.

The Board consists of three members and is called the Board of Management of the Agricultural Bank of Tasmania. If any member becomes bankrupt or insolvent or takes part in the management of any other money-lending institution or associates himself with other persons in the contracts or loans of the bank, he is liable to dismissal. Two members form a quorum but if there is an equality of votes at a meeting of the Board on any matter, such matters are deferred until all members are present.

Funds of the Bank

The funds of the bank are raised by the issue of debentures and inscribed stock. The Treasurer of Tasmania is authorised by the Governor to borrow money for the purposes of the bank by the issue of debentures and inscribed stock not exceeding £370,000. Funds raised by the Treasurer for the purposes of the bank are handed over to the Board, and the Board has to pay interest from the moneys of the bank to the Treasurer for these funds.

Rural Credits Department

The Rural Credits Department is a distinct department of the Agricultural Bank of Tasmania which was established by the State Advances Act, 1928, to make advances to persons engaged in rural industry. The moneys, accounts and transactions of this department are kept distinct from the other accounts of the bank.

The Treasurer is authorised by the Governor to raise funds not exceeding £250,000 for the purposes of the Rural Credit Department. The Treasurer is authorised to borrow money for the purposes of this department from the Commonwealth Bank of Australia by way of an overdraft. Moneys so collected by the treasurer are handed over to the Board of the Agricultural Bank of Tasmania, which also manages the Rural Credit Department.

The Board is authorised to enter upon an agreement with any bank or banks to act as an agent for the Board for making advances on behalf of the Board for the purposes of the Rural Credit Department or for collection and receipt of moneys on behalf of the Board.

The State Advances Act 1907, and Amendment

Conditions of Advances

Advances are made to farmers in any of the following ways: (1) long-term loans repayable by equal half-yearly instalments including interest and part of the principal spread over terms up to thirty years; (2) fixed loans for a definite period during which time interest only is payable, the loan

to be repaid at the end of the term ; (3) overdraft on current account at the Commonwealth Bank, interest being charged on the daily balance. Such accounts will be operative by cheque and may be overdrawn up to the limit fixed in each case ; and (4) a combination of the above, giving the advantages of each.

Here is an outline of each method

(1) and (2) Long-Term Loans and Fixed Loans

The security for loans under these headings must be first mortgage of freehold land, or land on purchase from the Crown on the Credit System. Stock, plant, machinery, crops, etc., are not acceptable security for this class of loan.

Purposes for which long-term loans and fixed loans are made : (1) for carrying on agricultural, dairying, grazing or horticultural pursuits on the holding ; (2) making prescribed improvements on the holding ; (3) adding to improvements already made on the holding ; (4) payment of liabilities already existing with respect to the holding, or payment of the balance of any purchase money in respect of the purchase of the holding.

The Board of Management may advance such amount as it determines according to the value of the security offered, but no advance shall exceed : (1) in the case of freehold land, 70 per cent. of the capital value of such land as fixed by the Board ; (2) in respect of credit purchase land, one-half of the capital value as fixed by the Board, after deducting from such capital value the amount of instalments unpaid to the Crown at the date of the loan. No advances are granted of less than £25 or more than £3,000.

Rate of Interest and Method of Repayment of Loans

The rate of interest is 4½ per cent. per annum.

Long-term advances are repayable by equal half-yearly instalments, combining interest and a portion of the principal in order that the loan may be fully repaid within the stipulated period. The half-yearly instalment remains the same during the whole period of repayment of loan, but interest is

charged only on the unpaid balance of loan, and as time elapses a smaller proportion of interest and a greater proportion of principal are paid.

The Board, at its discretion, may grant a period at the commencement of the loan during which interest only is chargeable.

The payments must be made punctually on the due dates, *viz.*, 1st January and 1st July.

Advances may be repaid in full at any time at the option of the borrower, or in larger amounts than the specified instalments ; notice in advance of such intention to repay is not required ; interest is only charged to the date of repayment.

(3) Loan by Overdraft on Current Account

The Board makes advances to persons engaged in any rural industry for all or any of the following purposes : (1) The purchase of machinery, implements, stock, poultry, trees, plants, manures and other things which the Board may consider necessary or convenient for the carrying on of such industry ; (2) the payment of any debt or other liability incurred in connection with the carrying on of such industry ; and (3) any other purpose which may be approved by the Board.

The Board decides terms, conditions and period over which the loan must be repaid, but such period shall not exceed ten years.

Interest at 4 per cent. per annum is charged on the daily balance. The rate of interest is subject to revision.

The Board also discounts promissory notes or bills of exchange held by persons engaged in any rural industry.

The security may consist of a mortgage over land (not necessarily a first mortgage), live-stock, farm plant and machinery, and assignment of assurance policy, a guarantee or such other security as may be approved. The Board requires security over stock, implements, machinery, etc., purchased with the loan.

Method of Advances under Rural Credits

Loans when approved are made available through the nearest branch of the Commonwealth Bank. An overdraft account is opened in the borrower's name and is operated upon by him in a similar manner to an account at an ordinary trading bank, and works within a specified limit.

Repayments

As mentioned above, repayment may extend up to ten years, but the Board fixes the actual term according to the circumstances of each case. A loan may be repayable by half-yearly instalments together with interest over a period of years not exceeding the maximum; from the proceeds of a harvest; under the dairy system or in any other manner which the Board may decide.

Dairy System Repayments

Loans for the purchase of cows are usually repaid by this system, which requires monthly instalments to be deducted from the borrower's cream cheque during each dairy season.

During the currency of the loan the instalments are of an equal amount combining principal and interest at 5 per cent. The Board usually requires an order authorising the butter factory to which the borrower supplies cream to deduct the monthly instalment and pay the same direct to his Rural Credit account at the Commonwealth Bank.

(4) Combined Long-Term Loans and Overdrafts

Advances are granted, if desired, partly by long-term loan repayable as explained and partly by overdraft on current account. This enables an applicant to have the convenience of a current account for general working, whilst he is improving his position by the gradual repayment of the long-term loan.

In the event of an applicant having a current account in one of the commercial banks, it is not obligatory for him to transfer his account to the Commonwealth Bank.

Advances

Applicants are required to bear the expense of valuation, which is usually kept to a minimum, and other necessary expenses incurred in pursuing the title, preparing and registering the mortgage deed, etc. The total cost seldom exceeds £5 for a loan of £1,000.

Mortgages to the bank and other like documents are exempt from stamp duty.

Besides making advances under the State Advances Act, 1907, and Amendments (including Advances under the Rural Credits Department), the bank also makes advances under the following Acts : (*a*) The Advances to Orchardists' Act, 1926 ; (*b*) advances made for Bush Fire Relief ; (*c*) the Flood Sufferers' Relief Act, 1929 ; (*e*) the Unemployed (Assistance to Primary Producers) Relief Act, 1930, and amendments ; (*e*) Unemployment Relief Act, 1930 ; (*f*) Homes Act, 1919, and amendments ; and (*g*) advaces for Crop Losses, 1934–35.

It is not possible to review the activities of the bank under all these heads. However, we shall briefly describe the salient features of the Unemployment (Assistance to Primary Producers) Relief Act of 1930 as it is of considerable interest to us in India.

The Unemployment (Assistance to Primary Producers) Relief Act

This Act was passed in 1930 when Australia was in the depths of economic depression and unemployment was increasing at a very alarming rate. The Act was passed to assist the small primary producer whose livelihood was at stake. Under this Act assistance may be granted to small landholders whose holdings are insufficient to supply full support for them and their families the whole year round, who otherwise would be forced to look for outside employment for a part of the year. The Act provides that assistance may be granted to small-holders where such assistance will be the means of making their properties self-supporting, such assistance to take the form of sustenance while the landowner is effecting the necessary permanent improvement to render the property capable of keeping him. In addition. such

allowance as is necessary may be made for the purchase of material, seed, hire of plant, etc.

These loans are to be repaid in eleven and a half years, and are free of interest except for such advances as are made for building purposes, in which case interest at the rate of $2\frac{1}{2}$ per cent. per annum may be charged. It is estimated that since the inception of the scheme approximately five thousand men have been employed, and over forty-nine thousand acres have been cleared. These loans have also helped the small farmers to erect fences to the extent of three hundred and twenty-five miles and to make drainage provision for about sixty-two miles. Another interesting fact is that the number of applications received each year is progressively decreasing, which goes to show that unemployment in rural areas is decreasing, and such loans did exert a very beneficial influence. During the year 1931–32 over seven hundred applications were received for these loans, while in 1935–36 only eighty-eight applicants came forward. Over £70,000 have been spent on these advances.

Closer Settlement Board

The Closer Settlement Act was passed in 1920 to make provision for making advances to returned soldiers and for closer settlement of land.

The management of this Act from March 1932, was transferred to the Agricultural Bank, which manages it with a special board consisting of its own board and a representative of returned soldiers. This board makes advances to returned soldiers who have settled on the land and others who are practising intensive agriculture, for buying stock, seeds and fertilizers and for making improvements on the land, also for buying implements. The board has incurred considerable losses on these loans. The profit and loss account and the balance-sheet for the year ending 30th June 1936 show that the Closer Settlement Loss for the year was £4,538, and the loss under Soldiers' Settlements was £76,585.[1]

[1] *Report of the Closer Settlement Board*, page 10. Government Printer, Tasmania.

Working of the Agricultural Bank of Tasmania

The Agricultural Bank of Tasmania is a bank only in name. It is a Government Department which has been entrusted to make advances under various Acts. No profit and loss account or balance-sheet is prepared for the bank as a whole. These are prepared separately for each type of loan. As the number of such Acts is quite considerable, space does not permit to show their accounts ; consequently we shall confine ourselves to the examination of the state of affairs under the State Advances Act and under Rural Credits. Under the State Advances Act the bank suffered a loss of £5,500 and under the Rural Credits, the net loss was £3,703.

CHAPTER VII

THE AGRICULTURAL BANK OF QUEENSLAND

The Agricultural Bank of Queensland

A special feature of the Agricultural Bank of Queensland which differentiates it from other Agricultural Banks in Australia, is that it is a purely State institution and is managed, not by any trustees, commissioners or board, but by a general manager who is directly responsible to the Minister of Agriculture. Another special characteristic of the bank is that it does not accept any deposits and does not undertake any banking business.

Funds of the Bank

At the Treasury, a special fund called the Agricultural Bank Fund has been instituted. The Treasurer from time to time makes available for the purposes of the bank all such moneys as are opportioned by Parliament for such purposes. All moneys repaid to the bank in respect of advances and interest thereon, and other moneys received by the bank, are paid into the Agricultural Bank Fund.

All advances made by the bank and the salaries of the employees of the bank and other necessary expenses incurred by the bank are paid from this fund.

Out of net profits earned during any year, the bank may set aside a sum which it thinks proper towards a reserve fund for meeting losses and depreciation, and for such other purposes as it deems necessary.

Early History of the Bank

The first agricultural bank legislation in Queensland was passed by Parliament in 1901, and was entitled " The Agricultural Bank Act of 1901 ". The bank was managed by a Board of Trustees. Advances were authorised up to a maximum of £800 for the purpose of effecting improvements, and were not to exceed the rate of 13*s*. in the pound of the fair estimated value of the improvements proposed. Preference

was to be given to applications for amounts not exceeding £200. For the first five years of the advance interest only was to be paid—at the rate of 5 per cent. per annum—and the principal, together with interest at that rate, was to be repaid in the succeeding twenty years by equal half-yearly instalments.

The Agricultural Bank Act Amendment Act of 1904 further provided for advances for the payment of liabilities on holdings and for the purchase of stock, machinery and implements ; advances for these purposes were limited to the rate of 10*s.* in the pound of the security value of the holding. Advances for effecting improvements and for other purposes were limited to 12*s.* in the pound.

The Agricultural Bank Acts Amendment Act of 1911 further extended the provision for advances to pay liabilities to include the purchase money of the holding or of stock, machinery and implements. To specially assist new settlers provision was also made for advancing for certain improvements up to the full value thereof, with a maximum of £200 in any instance, such improvements to include buildings, ring-barking, clearing, fencing, draining and water conservation. The limit of advances was fixed at 12*s.* in the pound of the security value of the holding.

The Agricultural Bank Act Amendment Act of 1914 further authorised advances up to £200 for unspecified purposes to *bona fide* resident settlers. The general rate up to which advances could be made was increased to 13*s.* 4*d.* in the pound.

The Queensland Government Savings Bank Act of 1916 dissolved the Board of Trustees and handed the business over to the Corporation of the Commissioner of the Savings Bank created under that Act. The maximum advance to any one person was increased to £1,200, and the general rate of advances to 15*s.* in the pound. The priority previously given to applications for amounts not exceeding £200 was removed. The maximum advance for unspecified purposes was increased to £400. Advances for the purchase of approved dairy stock

were provided for where a settler had cleared, fenced and grassed an area of thirty-five acres or more. Losses on advances on prickly-pear selections or agricultural selections infested with prickly-pear were to be made good from consolidated revenue.

The Co-operative Agricultural Production Act of 1912, originally passed to provide for advances in aid of co-operative enterprise in connection with the manufacture and cold storage of primary products of agriculture, was amended in 1919 to provide also for special advances by the Minister of Agriculture on short terms up to seven years at 5 per cent. per annum for the purchase of dairy cattle, pigs and sheep, and for the erection of silos, in cases where the applicant had not the requisite security to offer under the Savings Bank Act. The maximum advances were as follows : dairy cattle £200, pigs £50, sheep £200, silos £150.

In view of the transfer to the Commonwealth Bank of the savings bank operations under the Savings Bank Act, which was effected by the Commonwealth Bank Agreement Ratification and State Advances Act of 1920, the name of the Savings Bank Act was altered to " The State Advances Act of 1916 ", and the Corporation of the Commissioner was replaced by the State Advances Corporation, who was the Treasurer of Queensland. Subsequently the administration of the Act in relation to advances to settlers was handed over to the Secretary for Agriculture and Stock. The terms and conditions of advances were not affected by this change.

Advances to Co-operative Companies for Works

The Co-operative Agricultural Production Act of 1914 provided for advances for works or factories up to a maximum rate of 10*s*. in the pound of the cost of such works or factories for the manufacture or cold storage of primary products of agriculture and their by-products. The rate of interest was 4 per cent. per annum. For the first two years of the advance interest only was payable, and the principal together with interest was repayable within the succeeding fourteen years by equal annual instalments

The Act was amended in 1919, the principal alterations being as follows : (*a*) the maximum advance was increased to two-thirds of the cost of the works ; (*b*) the rate of interest was increased to 5 per cent.

The Agricultural Bank Act of 1923

Advances to Settlers and Advances to Co-operative Companies

The Agricultural Bank Act of 1923 was passed by Parliament and assented to on the 23rd November 1923, to consolidate and liberalise the provisions of the then existing legislation relating to advances to settlers on farm land, and advances for works to co-operative companies and primary producers' co-operative associations. The Secretary for Agriculture and Stock created a corporation entitled The Corporation of the Agricultural Bank, and all the existing business in connection with the foregoing activities was taken over by that bank. The new Act was proclaimed in force as from the 1st September 1924.

The principal alterations effected by the Agricultural Bank Act are as follows :—

Advances to Settlers

The maximum advance is increased from £1,200 to £1,800. The maximum rate of ordinary advances is increased from 15*s*. to 16*s*. in the pound on the security value of the holding. The maximum advance up to the full value of new settlers' improvements is increased from £300 to £500, and further classes of improvements under this provision are included, *viz.*, dairy-houses and yards, accommodation for pigs, silos and haysheds ; also the previous limitations on advances for any specific class of improvements within that maximum have been removed. Provision has been made for advances for relief in the case of drought, flood, cyclone and other similar adverse happenings. Additional special short-term advances are provided for the purpose of dairying plant (£50), and for the purchase of machinery and plant for fodder conservation (£150), and the maximum special advance for sheep is increased from £200 to £300. The maximum term for the repayment

of ordinary advances is twenty years following a maximum period of five years during which interset only is payable. Maximum terms are prescribed for the respective special short-term advances, the longest of which is seven years and the maximum period in which interest only is paid, is one year.

Advances to Co-operative Companies and Associations

The maximum rate of advances for works may, in special circumstances, be a greater proportion than the previous limitation of two-thirds of the cost. The maximum term of advances for works is sixteen years, following a maximum period of two years during which interest only is payable. The new Act also provides for a further class of advance business in the nature of co-operative credit so that a group of settlers formed into a primary producers' co-operative association may obtain advances for the purchase of machinery and other appliances for the joint use of such settlers and advances for the construction of works to assist and encourage primary production. The maximum advance is £1,800; the maximum rate of advance is two-thirds of the cost of the machinery, etc., to be purchased or the works to be constructed. The maximum term of the advance is five years, following a maximum period of two years during which interest only is payable.

Generally, the provisions of the Act avoid the hard and fast conditions of the previous legislation which sometimes precluded advances being granted in otherwise deserving cases. Greater discretionary powers have been given to the administration, so that the business incidental to financial assistance in connection with land settlement and primary production generally may be conducted without the unnecessary restrictions that have previously operated.

Advances to Settlers : Lands Eligible for Advances

The bank may make advances on farm land used or about to be used for agricultural, dairying, grazing, horticultural or viticultural pursuits, poultry or pig raising, or other approved rural pursuits.

Purposes for which Advances are made

Subject to the Agricultural Bank Acts advances may be made for the following purposes :—

(*a*) To enable an applicant to pay off any liabilities due on his land, or to pay the balance of any purchase money due on the land or on any stock, machinery or implements for the land.

(*b*) To enable an applicant to make improvements to his land.

(*c*) To enable an applicant to purchase stock, machinery or implements.

(*d*) To afford relief in special cases due to drought, flood, tempest, fire or other adverse conditions or happenings beyond the control of the applicant.

(*e*) For unspecified purposes in connection with the land, up to an approved amount not exceeding £400, provided the applicant is a *bona fide* settler residing on and working the land for the purpose of agricultural, dairying, grazing, horticultural or viticultural pursuits, poultry or pig raising, or other approved rural pursuits. When an advance is made under the heading of " Unspecified Purposes ", the borrower must continue to reside on and work the land until the whole of such advance has been repaid.

(*f*) Special advances to dairy farmers, farmers, graziers or sheep farmers, for farm horses, dairy stock, sheep, pigs and certain plant, grass and fodder crop seed.

(*g*) Special advances to graziers for beef cattle.

Maximum Advance

Advances may be made for any term fixed by the bank not in any case exceeding twenty years, exclusive of any period allowed by the bank not exceeding five years, during which interest only is payable. The bank has, however, power to vary or extend from time to time the term or period of advances, but the full term of advances shall not in any case exceed twenty-five years.

Rate of Advances

For the foregoing purposes, exclusive of those mentioned in paragraphs (*d*), (*f*) and (*g*) above, the bank is empowered to make advances at a rate not exceeding 16*s*. in the pound on the fair estimated security value of the land with its permanent improvements, together with those, if any, to be made by means of the advance applied for, but omitting crops, stock, implements, etc. In estimating the security value, the value of the land and permanent improvements for sale purposes is the primary consideration; but all sums already advanced and still owing are taken into account.

In exceptional cases under paragraph (*d*), "Relief in the case of drought, etc.," advances may, where necessary, be made beyond the aforementioned rate of 16*s*. in the pound. In certain cases under paragraphs (*f*) and (*g*), "Special advances to dairy farmers, farmers, graziers or sheep farmers, for farm horses, dairy stock, beef cattle, sheep, pigs and certain plant, grass and fodder crop seed", may also be made in excess of that rate.

With a view to specially assisting beginners, advances in special circumstances and for a suitable amount, not exceeding a total of £500, may be granted up to the full value of improvements to be effected under the following headings: Buildings, ringbarking, clearing, fencing, draining, water conservation (including a well or bore, together with lifting power), dairy house and yards, accommodation for pigs, silos, and haysheds.

Rate of Interest

The rate of interest payable is fixed by the bank in each case when the advance is approved. The present ruling rate (1938) on advances is 4½ per cent. per annum.

Security Required

The security required, except in the case of certain special advances, is a first mortgage over the land and improvements. In some instances further security over stock and implements will also be required.

What are Improvements ?

The bank can regard as improvements the clearing and breaking up of land, ringbarking, fencing, draining, bores, wells, dams and reservoirs, buildings, installation of machinery, cattle dips, stock yards, water conservation, dairy houses and yards, accommodation for pigs, silos and haysheds.

Advances for Unspecified Purposes

The term "unspecified purposes" means not specified in the Act ; advances under that heading must be in connection with the land offered as security. Therefore, when an application is being made under that heading, the general purposes for which the advance is intended to be used should be stated as fully as possible.

Special Advances to Dairy Farmers, Farmers, Graziers and Sheep Farmers

Special advances under paragraphs (*f*) and (*g*) may be made to dairy farmers, farmers, graziers and sheep farmers. For the purposes of such advances the following terms have the meanings indicated :—

Dairy Farmer

(*a*) A person engaged in dairying who is the owner of female dairy cattle the value of which, in the opinion of the bank does not exceed £250 ; or

(*b*) A person desiring to engage in dairying who wishes to purchase female dairy cattle of a value not exceeding £250 ; or

(*c*) A person as defined in paragraph (*a*) or (*b*) who wishes to purchase a bull.

Purposes for which such Special Advances are made

Such special advances to dairy farmers, farmers, graziers and sheep farmers may be made for the purposes set out below, and not exceeding the maximum amount set out for each purpose :

(*a*) Purchase of farm horses, £65 ; (*b*) purchase of dairy cattle, £250 ; (*c*) purchase of separator or other dairying plant,

£50 ; (*d*) purchase of machinery and plant for fodder conservation, £150 ; (*e*) purchase of grass and fodder crop seed, £25 ; (*f*) purchase of pigs, £50 ; (*g*) purchase of sheep, £300 ; (*h*) purchase of beef cattle, £300 ; (*i*) purchase of pine-apples and banana suckers, and of other seeds and plants for approved purposes, £30.

Maximum Advance

At no time can the total amount advanced to any one person for any or all of the abovementioned special purposes exceed £300, except in the case of a grazier, to whom £500 may be advanced. Any special advance is included in the total sum of £1,800 which is the absolute maximum sum that can be advanced to any one borrower as previously mentioned.

Terms of Advances

Special advances for the purchase of farm horses, dairy cattle, separator or other dairying plant, or machinery and plant for fodder conservation, may be made for any term fixed by the bank not exceeding seven years ; advances for the purchase of beef cattle and sheep may be made for any term not exceeding three years.

These terms are exclusive of any period allowed by the bank, not exceeding one year (in the case of beef cattle two years), during which interest only is payable.

Rate of Interest

The rate of interest payable is fixed by the bank in each case when the advance is approved.

Security Required

The security for such special advances will be such as the bank may require in each particular case.

In all instances security is required over the stock, machinery or plant purchased with advances made. In some instances further security, such as an order on the butter factory to which cream is supplied, or a preferential wool lien is also required. Wherever possible a mortgage over the land is required as part of the security.

Repayments

Advances are repayable by equal half-yearly instalments of an amount sufficient to repay, within the term of the advance, both the principal and interest on the balance outstanding from time to time.

In the case of special advances which have been granted for the purchase of dairy cattle, etc., it is the usual practice of the bank to secure the repayment of the half-yearly instalments by an assignment executed by the borrower on his monthly cream proceeds.

Accelerated Repayments

Advances may be repaid in full at any time at the option of the borrower or in larger amounts than the specified instalments ; notice in advance of such intention to repay is not required ; interest is charged up to the time of repayment only.

Accelerated repayments of principal, however, do not, except in special circumstances, entitle a borrower to a reduction in the amount of the half-yearly instalment payable in terms of his mortgage.

Mode of Payment of Advances

Where an advance is approved for the purpose of payment of liabilities on the land, the advance may be paid in exchange for the necessary documents, provided the necessary securities have been duly executed.

For stock, machinery, plant and implements, orders on forms supplied by the bank may be given to the vendors, the payment of which will be made by the bank when requirements have been complied with.

In the case of advances for unspecified purposes, the amount approved may be paid when the necessary securities are in order.

For authorised improvements, instalments of advances may be paid from time to time on the approved value of improvements effected or in progress, after the same have been inspected and valued, or the advance may be paid in a lump sum on completion of the improvements. Orders on forms supplied by the bank may be given to suppliers of material for use on

authorised improvements, and payment thereof will be made by the bank when requirements have been complied with.

No work should be commenced or liability for stock, etc., incurred in anticipation of receiving an advance until the bank has notified in writing the actual approval of an advance for the purpose.

Bills of Sale and Stock Mortgages

The execution of a Bill of Sale or Stock Mortgage does not debar a borrower from dealing with his stock, etc., provided the bank is advised of any disposal of such assets and the number and value originally mortgaged are reasonably kept up.

Stamp Duty

Mortgages to the bank and other like documents are exempt from stamp duty.

Fees Payable

All first applications must be accompanied by a preliminary inspection fee of £1, and this sum will become the absolute property of the bank, whether the required advance or any part thereof is made or not. If an application is approved, the borrower has to pay a fee of £1 for approximately every £200 that he borrows.

Applicants must pay all costs of registration of securities for advances. These costs consist of fees payable to the Real Property Office (generally £1) on freeholds, or to the Lands Department or Mines Department (generally 5s.) on leasehold tenures held from the Crown.

Advances to Primary Producers, Co-operative Companies and Associations under the Agricultural Bank Act of 1923. Classes of Co-operative Companies and Associations Eligible for Advances

The definition of a Co-operative Company or Association under the Agricultural Bank Act includes a registered[1] primary producers' co-operative association or a registered

[1] The term "registered" in respect of primary producers' co-operative associations or primary producers' co-operative federations means registered under the provisions of the Primary Producers' Co-operative Associations Act of 1923.

primary producers' co-operative federation; also a joint-stock company formed and registered under the Companies Acts, 1863 to 1913, whose articles of association provide: (*a*) that two-thirds at least of the number of shares of the company and of the voting power of the shareholders shall always be held by persons who are producers of primary produce or resultant products in respect of which or in relation to which the business of the company is or is to be carried on; and (*b*) that no dividend at a higher rate than £5 per cent. per annum, shall at any time before all advances under this Act have been repaid, be declared or paid or credited by the company.

Purposes for which Advances are made

Subject to the Agricultural Bank Act, advances may be made for the following purposes: (1) in aid of the construction by the company or associations of works[2]; (2) with the previous approval of the Governor in Council, in respect of any works already constructed; (3) for the co-operative purchase of certain machinery, etc.

Terms of Advance

Advances in aid of the construction of works or in respect of works already constructed may be made for any term fixed by the bank not in any case exceeding sixteen years exclusive of any period allowed by the bank, not in any case exceeding two years, during which interest only is payable. The circumstances of each case are considered in determining the term and period.

Rate of Advance

Generally such advances must not exceed two-thirds of the cost of the construction of such works or two-thirds of the value of the works already constructed; but whether this or

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[2] *Meaning of the term Works;* Any works or factory for the manufacture or storage or cold storage or conservation or treatment of primary produce and resultant products or any of them, together with all machinery and appurtenances used therein or in connection therewith, and all tramways leading thereto, and the site of the works, and all lands used in connection with any such tramway.

any lesser proportion will be advanced depends on the circumstances of each particular case.

Advances may in special circumstances be made to an amount greater than two-thirds of the cost of such works, but not exceeding such proportion of their cost as the bank determines, provided the bank is satisfied that: (*a*) the company is not financially able to provide one-third of the necessary cost of the works; (*b*) a new industry will be encouraged or the proper development of any district will be assisted; and (*c*) the proposal of the company in respect of the works is likely to be financially successful.

Rate of Interest

The rate of interest payable is fixed by the bank in each case when the advance is approved.

Security Required

As security for all such advances the bank requires a first mortgage over the lands, works and undertaking of the company. Further security may be required by the bank, such as a mortgage over pigs, sheep, cattle, horses or other livestock; a bill of sale over any machinery, implements or chattles, whether then belonging to or to be acquired by the company or association, or its surety; a lien on wool; a lien on growing crops of all kinds, a lien, order or assignment on any other produce or the proceeds thereof; a floating charge or charge on the uncalled capital of the company or association.

Mode of Payment of Advances

Where an advance is approved for the purpose of erecting works, necessary instalments of advances may be paid from time to time on the approved value of the work effected or in progress after the same has been inspected and valued, or the advance may be paid in a lump sum on completion of the works.

Orders on forms supplied by the bank may be given to suppliers of material for use in the construction of the works, or to vendor, and payment will be made by the bank when the necessary requirements have been complied with.

Where an advance is approved for the purpose of payment of liabilities on works already constructed, the advance

may be paid in exchange for the necessary documents, provided the required securities have been duly executed.

Special Advances for Co-operative Purchase of Certain Machinery, etc.

Special advances may be made to co-operative companies and associations for the following purposes: co-operative purchase of machinery, engines and other appliances to assist and encourage primary production, and the construction and manufacture of works and things for the like object, that is to say: tractor or other approved type of engine for ploughing land, clearing or other primary production purposes; grading and levelling land for irrigation purposes and machinery for the same; construction of water channels, ditches, check banks or levels for irrigation purposes, and general requirements in connection with the same; drainage of land; machinery, engines and other appliances for the following purposes: haymaking, loading, stacking, and bailing; ensilage cutter with blower or elevator; corn-binder; chaff-cutting; corn-threshing; wheat, maize, cotton or peanut harvesting or effective harvesting of other crops; rice hulling and polishing; extraction and preparation of vegetable oils and fibres; sheep shearing and wool pressing; cotton ginning; preparation of arrowroot, coffee or other products; grading, cleaning and drying grains and seeds; butter and cheese making; pasteurisation and treatment of dairy produce; cold storage; bacon curing; drying, pulping, canning and dehydration of fruit and vegetables; burning or crushing of limestone for primary production purposes; preparation and manufacture of fertilisers; spraying of crops for treatment of insects, fungus diseases and other pests, etc.; storage and conservation of fodder; construction of cattle and sheep dip yards; destruction of prickly pear and other plant pests; wire-netting for checking rabbits, marsupials, and animal pests, etc.

Maximum Advance

The aggregate of any special advances must not exceed £1,800 to any one company or association; but whether this

sum or any lesser sum will be advanced depends on the circumstances of each particular case.

Term of Advance

Such special advances may be for any term fixed by the bank, not in any case exceeding five years, exclusive of any period allowed by the bank, not in any case exceeding two years, during which interest only is payable.

Rate of Advances

Such special advances must not exceed two-thirds of the cost.

Rate of Interest

The rate of interest payable is fixed by the bank in each case when the advance is approved.

Security Required

The security for such special advances is such as the bank may require in each particular case, and may be any one or more of the following classes of security : a mortgage over the lands, works and undertaking of the company ; a mortgage over any pigs, sheep, cattle, horses or other live-stock ; a bill of sale over any machinery, implements or chattels belonging to or to be acquired by the company or association, or its surety ; a lien on wool ; a lien on growing crops of all kinds ; a lien, order, or assignment on any other produce or the proceeds thereof ; a floating charge or charge on the uncalled capital of the company or association.

Repayments

Advances are repayable by equal half-yearly instalments of an amount sufficient to repay, within the term of the advance, both the principal and the interest on the balance outstanding from time to time. Advances may be repaid in full at any time at the option of the borrower, or in larger amounts than the specified instalments.

Fees Payable

Each application for an advance must be accompanied by a sum of £5.

If the costs of effecting a valuation or inspection are less than the actual sum paid, the difference between the two amounts is refunded to the company or association, but if such costs exceed the sum of £5 the additional costs must be paid by the company or association. In addition, companies or associations must pay all costs of registration of securities for advances. Mortgages to the bank and other like documents are exempt from stamp duty.

Rural Assistance Board

The Bank Act was amended in 1934 and a Rural Assistance Board was established. It consists of four members, two of whom are officers of the bank. Of the others, one belongs to the Agricultural Department and the other belongs to the Auditor-General's Department. These members hold office at the pleasure of the Governor in Council. The Board is an advisory body and is charged with the duty of advising the Minister of Labour and Industry in respect of loans which may be made under the Unemployment Relief Acts. The Board also is entrusted with the function of advising the Agricultural Bank in respect of applications for advances made under the Agricultural Bank Acts and the Discharged Soldiers' Settlement Acts.

Amendments of the Principal Act

The Principal Act was also amended to make provision for advances to commodity boards. The bank, on the recommendation of the Rural Assistance Board, is authorised to make advances to commodity boards.

Working of the Bank

The following summary gives an indication of the part that the bank has played in fostering primary production in the State.[3]

Advances under the Agricultural Bank Acts

Since the inception of these advances up to 1937 the bank has advanced 7½ million pounds to over forty-one thousand

[3] For details see the 35th *Annual Report of the Operations of the Agricultural Bank of Queensland*. Government Printer, Brisbane.

farmers. Out of these seven and a half million pounds, over five and a half millions have been repaid. The net losses written off are only £65,120 for 427 borrowers. The average number of properties in the hands of the bank has seldom exceeded 150 a year throughout this period.

Since 1924 the bank has advanced over ninety-six thousand pounds to twenty-one co-operative companies. The bank has also advanced over two million pounds since 1916–17 to discharged soldiers. During the year 1936–37 the bank earned a profit of over seven thousand pounds, and the reserve fund had ninety-three thousand pounds to its credit.

Comments

The Bank is purely a Government lending department. Political control of an agricultural bank cannot be recommended. The dangers of political control in agricultural banks have already been pointed out, and it would be much better if the management were entrusted to an independent board.

It is not advisable for an agricultural bank to lend money for unspecified purposes, as the Agricultural Bank of Queensland does. The Agricultural Bank lends up to the full value of improvements not exceeding £500. In my opinion, this is a very wrong principle. The lending business of the bank should be done on strict commercial principles and the bank should not lend money for more than 60 per cent. of the value of the land, estimated on a conservative basis.

Chapter VIII

THE AGRICULTURAL BANK OF WESTERN AUSTRALIA

The Agricultural Bank of Western Australia is the oldest agricultural bank in Australia. It was established in 1894. The bank has a very long and chequered history which provides very interesting and instructive reading in the domain of agricultural finance and affords some very valuable lessons. The short history of the legislation regarding this bank has been well described by the Agricultural Bank Royal Commission from which the following summary is reproduced.[1]

But before we summarise this interesting history, it seems desirable to make a brief reference to this Commission.

By the end of 1932 the Bank became hopelessly involved and its financial condition became very unsatisfactory. By the middle of the year 1933 the condition became so bad that it caused alarm all over the State, and as a result a Royal Commission was appointed on the 28th September 1933 to investigate its affairs. The terms of its reference were very wide indeed, which cover almost two foolscap-size closely written pages and cover every possible aspect to be investigated.

Short History of the Bank Legislation

In the early nineties the State of Western Australia had a small population with an extensive area of unalienated Crown lands, a large portion of such lands being suitable for agriculture and sheep farming.

No State in Australia ever had such a golden opportunity of inaugurating a sound, progressive land policy. The State had the land on which to settle not only the native-born West Australians, but also those from other States and overseas, whom the gold discoveries had brought, and were still bringing, to its shores. In those years agriculture was languishing,

[1] *Report of the Agricultural Bank Royal Commission*, 1934, pp. 5–6. Government Printer, Perth.

wheat was not produced in sufficient quantities to feed the people, and the land laws of the State were very liberal.

In the year 1894 Parliament decided to legislate for the encouragement of agriculture, and enacted the Agricultural Bank Act of 1894.

The Act was well conceived. Provision was made for the appointment of a manager, who, with the approval of the Governor, might at his discretion make advances for the purpose of promoting the occupation, cultivation and improvement of agricultural lands of the State. The maximum amount of each advance was limited to £400, with interest at 6 per cent. The advances which were to be made by instalments were not to exceed one-half of the fair estimated value of the improvements for the effecting of which the advance was being made.

A margin of security was thus established, and a settler, by doing the work, had a living provided for himself and family in the pioneering stages of his farm, and built up an equity for himself in the property.

The policy appeared to be an admirable one. The manager had to exercise discretion both in respect of the land and the applicant, and the Governor had to approve all advances.

The methods provided for finance were equally sound. The repayment of principal and interest was to be secured by a mortgage over the land. Interest was to be paid half-yearly, and the principal was to be repaid by fifty half-yearly instalments, commencing on the expiration of five years after the advance had been made. All moneys required for the purpose of the Bank were to be raised by the issue of mortgage bonds, and these moneys were to be paid into the Treasury and made available to the bank.

The manager had to pay all moneys obtained by him for fees received on applications for loans, for payment of interest, and for repayments of principal, into the Treasury. From these moneys the Treasury was directed to pay—(*a*) interest on the moneys borrowed for the purposes of the bank, (*b*) cost of administering the bank, and (*c*) the balance into

a Redemption Account for the purpose of redeeming the mortgage bonds.

The usual powers were given to the manager for the purpose of enforcing securities taken by the Bank. The original capital of the bank was fixed at £100,000, and statutory power was given from time to time to increase the capital.

It will be seen from a perusal of the synopsis of the legislation dealing with the bank how the limit of individual advances from time to time increased, until it reached £2,000, how the full value of improvements was paid, and how the purposes for which advances might be made were greatly extended.

The vital amendments to legislation governing the bank were made in the years 1906, 1912, 1929 and 1930.

The 1906 Amendment

The constitution of the bank, so far as its administrative officers were concerned, was altered, and three trustees were appointed in lieu of the manager. Absolute discretion was given to the trustees in respect of making advances, both as to the applicant and the land, and in all subsequent legislation this discretion has been maintained.

The trustees were directed to prepare a yearly balance-sheet, which, with the yearly report of the trustees, had to be laid before Parliament. The Auditor-General was directed to examine and audit the accounts of the trustees each year, and make his report to Parliament thereon. The provisions in respect of balance-sheets, report and audit have always been maintained by subsequent legislation.

The 1912 Amendment

The Agricultural Bank Legislation of 1912 was revolutionary.

The main purposes of the first-mentioned Act, as introduced to the Legislative Assembly, were to convert the bank from an improvement bank into a mortgage bank, placing no limit on the amounts to be advanced by the trustees, and removing the limitation imposed by the trustees as to the

particular manner in which the money advanced might be expended.

In moving the second reading of the Act, No. 18 of 1912, the Minister for Lands said :[1]

"It gives me great pleasure indeed to move the second reading of this Bill, because the position which has necessitated this measure is that of continued development of the agricultural industry in this State. Since 1894 when the first Agricultural Bank Act was passed, the record has been one of continued additions to the capital of that bank in order to keep pace with the increasing needs of those who have settled upon our agricultural areas, and it is pleasing to note that during the course of that time, under the careful and capable management of those who have been entrusted with the control of the bank, we have sustained very little indeed in the nature of a loss on the transactions. The present amendment for the purpose, firstly, of increasing the capital of the bank by a sum of £500,000, which the managing trustee informs me will be sufficient to carry us on till the next financial year, and secondly for the purpose of extending and liberalising the functions of the bank. At the present time there are a number of limitations which are imposed upon the trustees of the bank. Firstly, there is a limitation as to the total amount that may be lent, and there are also limitations as to the particular manner in which the money may be expended, and in the course of my own personal experience, coming into contact with those who find it necessary to resort to this institution for accommodation, I have found that these limitations very often act adversely on the settlers. For instance, the Agricultural Bank practically takes the settler up before a security has been created and accommodates him with a loan at a reasonable rate of interest for the purpose of effecting improvements upon his holding; but when those improvements have been effected, and when he has attained to a state whereat his holding may be regarded

[1] Hansard, Vol. 5, Session 1911, p. 573.

as a productive proposition, if he then requires accommodation, in a great many instances he finds it necessary to leave the Agricultural Bank and resort to other institutions which will carry him further on. But in order to secure that accommodation from the chartered banks, or from private financers, he is obliged to take up his loan from the Agricultural Bank and substitute for it a loan from these other institutions at a higher rate of interest. I have always held that if it is good enough for the Agricultural Bank to help a settler to create a security it should also be good enough and advantageous for the Agricultural Bank to lend him money after that security has been created, and in this particular measure I seek to accomplish that purpose. It is provided here that subject to the provisions of the Act, and the discretion of the trustees of the bank, they will have power to lend money upon the security just as the chartered banks do, providing, of course, a safeguard in regard to the margin between the amount they may lend and the value which they place upon the security; and with that margin of security for the bank I see no reason except, perhaps, in particular instances, why the bank should dictate as to how that money should be expended. The bank has the security, and if the money is unwisely expended and the loan becomes a doubtful one from the point of view of development by that particular holder, the bank still retains the power of foreclosing upon the holding and with that power I fail to see that any disastrous result can ensue."

Mr. Turvey: "Is there a fixed margin?"

The Minister for Lands: "No; we are leaving that to those who are controlling the institution, just as it is left to those who control the chartered banks; they decide what is a fair margin between what they advance and the value of the security, and we should have sufficient confidence in those in charge of the Agricultural Bank to give them this increased power. I commend this measure to the attention of the House, because I realise that if the Government are to carry on their purpose of ensuring that the lands of the State

are to be utilised for genuine productive work and not for merely speculative and trafficking purposes, then we have a further duty to perform of ensuring that where the settler needs accommodation in order to carry on that work, he shall not be subject to any combined influence on the part of those outside the State institution, who may seek to use him as a lever in order to force us from our purpose."

When the Bill was before the Legislative Council two important amendments were inserted; the one limiting the amount of advances to £2,000, the other, "No member of the Legislative Assembly was to interview or communicate with the Trustees in the interests of any person other than himself upon any business under this Act, and any such member committing a breach of this section shall be guilty of an offence, and shall be liable by summary conviction to a penalty not exceeding £50."

The Legislative Assembly accepted the first-mentioned amendment limiting the amount of advances, but indignantly refused to accept the second, regarding such amendment as an insult to their House.

The duty of the trustees to submit a yearly balance-sheet and report to Parliament, and the duty of the Auditor-General to submit a yearly report to Parliament, as also the discretionary power of the trustees to make or withhold advances, were not in any way interfered with by this legislation, but it was pointed out during the debate that advances to be made under the amending Act were to be made on a security basis.

After this Act was passed it was found necessary to pass complementary legislation, and this was done by an Act 54 of 1912, by which the capital of the bank was increased by another £500,000, making the increase for the year £1,000,000.

The most important amendment, however, was that which gave the bank power to pay interest and contributions, at a rate to be prescribed by the Treasurer, to the sinking fund for redemption of money appropriated by Parliament to the purposes of the Act from the principal and interest paid by

mortgagers to whom advances had been made out of moneys so appropriated.

In moving the second reading of the Bill, the Hon. Minister for Lands said :

"I might point out, for the information of honourable members, that the power given to the trustees to lend on the security of the holding enabled the Agricultural Bank to transfer the liabilities, as between the settlers upon the land and commercial firms, to the Agricultural Bank. At the same time, of course, reasonable precautions were taken to see that the margin of security was sufficient to cover the advance, and as a result of that consideration it meant that firms who for their own protection might have been compelled to take extreme action against the settlers by reason of the payment of portion of their claims, were ready and willing to extend consideration to the settlers, and so enable them to tide over a difficult situation."

We, therefore, find that on the completion of the 1912 legislation, Parliament required the then trustees, whose training had been either in the pastoral or farming industries and who, therefore, had no experience in the business of banking to conduct the operations of the bank as a mortgage bank, and they allowed them the disposal of millions of pounds.

We have dealt with the 1912 legislation at some length, as the deplorable financial position of the bank cannot be appreciated without a knowledge of the same.

In brief, the following alterations were made by the 1912 Act: (1) Extension of maximum advance from £800 to £2,000; (2) finance by mortgage bonds abolished; (3) abolition of Redemption Fund; (4) Treasury lost control over the finances of the bank and (5) Trustees were given power to pay interest and contributions to Sinking Fund due to the Treasury from principal moneys repaid to the bank by its mortgagers.

From a perusal of the Parliamentary debates on the 1912 legislation, it is manifestly clear that Parliament never intended to interfere with the discretion of the trustees in making

advances; in fact, this discretion was confirmed. Parliament, however, anticipated that, with a wise exercise of this discretion, and the maintenance of a proper margin of safety, the bank, by having the limit of its advances increased to £2,000, would be a blessing to the farming community, releasing the farmers from all outside control. The real financial effect of the legislation, however, is disclosed by the Auditor-General's report of 1933, where we find that on the 30th June of that year an amount of £1,685,320, being borrowed money used to meet interest due to the Treasury, cost of administration, and contributions to Sinking Fund, represents the deficiency which accumulated over the period 1912 to 1933.

The exercise of absolute discretion of the trustees to make or withhold advances, as the nature of the securtiy demanded; to maintain a safe margin of security the examination of the Agricultural Bank accounts by the Auditor-General each year, and Parliamentary control of loan funds after the examination of such accounts, were to be the safeguards of the tax-payer, but unfortunately were not duly exercised.

The 1929 Amendments

The trustees received power from Parliament to extend time for payment of any instalments of principal and interest, and to readvance to settlers the money which had been paid to the bank for principal *and/or* interest. The managing trustee stated before the commissioners (Question 1525) that the trustees always waived default, even though they had no statutory right to do so until 1929. They claimed that this right was implied and thought no definite powers were given to them until 1929.

By 1930 the financial position of the bank had become so acute (loan moneys not being available), that the Finance and Development Act was passed, which vested all the assets of the bank in a new board and gave this board power to pledge such assets for the purpose of raising money for the bank outside the Loan Council.

Findings of the Commission

The Commission had very wide terms of reference and had to explore a very large field. Not only had it to investigate into the affairs of the Agricultural Bank, but it was also to report on the transactions, affairs and operations of the Industries Assistance Act, 1915, the Discharged Soldiers' Settlement Act, 1919, the Group Settlement Act, 1925, and the Finance and Development Board Act of 1930, as loans under all these Acts were given by the Agricultural Bank. The Commission held a thorough inquiry. It sat on 175 days and took evidence on 126 days from 291 witnesses. The Commission travelled over five thousand miles and also inspected in many districts the lands and buildings that were offered as security to the Agricultural Bank.

The findings of the Commission were very serious indeed. The Commission found that the bank was hopelessly involved. Out of the thirteen million pounds that were due to the bank and other allied institutions managed by it, it was feared that over four and three-fourths millions would be lost. Most of these losses, it was considered, were due to the indiscriminate use of lending.

The Commission found that the profit and loss statements prepared before 1930 were of very crude nature and did not reveal the true financial position of the bank. For instance, accrued interest in respect of all advances made by the bank, together with certain sundry items, including commissions, application and other fees, were taken to the credit and profit and loss account, while the interest on capital, administration expenditure, Sinking Fund contributions, losses on realisation and reserves for depreciation on offices and cottages were charged against the account. It was discovered that the yearly audit of the accounts was conducted in a most incomplete manner, and those who were in charge of the affairs of the bank did not show much financial and administrative ability.

The Commission found that the amounts due to the bank by many of its clients on their properties were far in excess of

the real value of the properties, and recommended that such debts should be adjusted. The Commission recommended a complete overhauling of the bank and the necessity of a new management. As a result, the previous Agricultural Bank Act was entirely repealed and a new Act was passed in 1935. Following are the main provisions of the Act.[1]

The Agricultural Bank of Western Australia is managed by three commissioners. Of these three, two are whole-time members who are each appointed by the Governor for a period of seven years and are eligible for reappointment. These two members must have sound knowledge of the rural industries of the State and must possess experience of administrative business. The third member is an *ex-officio* Under-Treasurer of the State of Western Australia or his deputy. The funds for carrying on the business of the bank are provided by the Parliament. The commissioners may, with the approval of the Governor, raise funds not exceeding one million pounds by issue of debentures. However, if it is necessary to raise more money, the commissioners have to submit a statement along with their annual report to the Minister in charge, and authority may be given by Act of Parliament to the commissioners to borrow funds exceeding one million pounds as the Parliament may think fit. All moneys borrowed by the commissioners are raised by the issue of debentures. However, before issuing any debentures the commissioners have to obtain the approval of the Governor regarding the terms, particulars of loan and the rate of interest to be paid. And as long as any debentures remain outstanding regular Sinking Fund contributions have to be made by the commissioners to an account specially kept for that purpose in the Treasury. The payment of all moneys borrowed by the commissioners is guaranteed by the State.

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[1] For details see the "Agricultural Bank Act of 1934". Government Printer, Perth.

The commissioners are authorised to make advances to any person engaged in rural industry[1] on the security of any lands owned by him, for the following purposes: (*a*) in order to enable such person to effect permanent improvements on such lands so as to render the same productive or more productive in such industry; or (*b*) to enable him to buy machinery, stock *and/or* plant to work the said lands; or (*c*) to enable him to use or put the said lands to better use or advantage in any other branch of rural industry than that in which he has been previously engaged; or (*d*) to enable him to erect a dwelling-house thereon; or (*e*) for any other purpose where, in the opinion of the commissioners, it is necessary or desirable to make an advance in order to conserve or protect any security of the commissioners.

Any person over the age of sixteen years who is the owner of an estate or interest in lands may make application for an advance under this Act, and, if such advance is granted to him, shall be capable of mortgaging his lands and contracting with the commissioners to the same extent as if he were of full age.

Before making any advance the commissioners have to satisfy themselves: (*a*) that the advance is required for all or any of the purposes set out above; (*b*) that the applicant has reasonable prospects of developing his lands successfully; and that he is deserving of such advance.

No advances are made: (*a*) except on the security of a mortgage or mortgages to the commissioners of the land and improvements with respect to which such advance is made, with or without such additional security, as the commissioners may think fit; (*b*) on any property which is encumbered by any previous mortgage or charge other than a mortgage or charge under the Act, or a mortgage to the bank, or to any of the transferred activities, or a mortgage or

[1] A Rural Industry has been defined by the Act as follows: The agricultural, pastoral, grazing, and dairying industries carried on in the State, and such other industries carried on in the State as the Governor may from time to time by proclamation declare to come within the definition of rural industry.

charge in favour of the Crown, but a second mortgage may be taken as collateral security; (*c*) where an advance is required to enable the applicant to purchase machinery, stock *and/or* plant, or to excavate a dam to an amount in excess of the value or reasonable cost of such machinery, stock *and/or* plant or dam, and where an advance is required for improvements other than for the excavation of a dam as aforesaid, to an amount in excess of 70 per cent. of the reasonable cost of the improvements to be carried out; (*d*) in excess of the sum of £2,000, but where the applicant is already indebted to the bank, he shall be eligible only to receive advances equal to the amount (if any) by which the sum of £2,000 exceeds his said indebtedness: provided that, where the commissioners are of opinion that it is necessary to exceed such limit to enable a borrower already indebted to the bank: (i) to put his lands to better advantage in some branch of rural industry other than that in which such lands have been previously used, and the commissioners are satisfied that the security of the commissioner is likely to be enhanced thereby; or (ii) to re-establish himself on other lands of the commissioners or (iii) to purchase machinery, stock, *and/or* plant, the commissioners may, with the approval of the Governor, make advances to any such borrower exceeding the prescribed limits.

If at any time in the opinion of the commissioners any moneys advanced have not been applied for the purpose for which they were advanced, or have not been carefully and economically expended, the commissioners may refuse to pay any further instalment of the advance, and may at once call in the whole amount already advanced, whereupon the borrower shall forthwith repay the same, and in default the commissioners shall have the same remedies for the recovery of the same as are provided by this Act for the recovery of advances on default being made by a borrower in payment of principal *and/or* interest under the terms of any security.

All sums borrowed from the commissioners shall be repayable by equal half-yearly instalments, or, in the case of

loans for improvements, by such graduated instalments as may be prescribed, to commence at such time and to be payable in such manner as the commissioners may determine: provided that the instalments shall not commence later than ten years after the date of the advance, and the period over which an advance shall be repayable shall not exceed twenty years: provided further that, subject to regulations, nothing herein contained shall prevent the borrower, if he so desires, from paying off the advance sooner than provided by the term of the advance.

So long as any money remains owing in connection with any advance, the borrower shall, on the first day of January and the first day of July in each year, pay to the commissioners, interest on the amount of the said advance, or on so much thereof as shall from time to time remain unpaid, at such rate or at such differential rates per annum as may from time to time be prescribed, provided that the commissioners may, at their discretion, reduce the rate of interest payable in connection with any advance.

If any instalment of interest payable under any mortgage is in arrear for such period that the power of sale of the mortgaged lands is exercisable, such interest so in arrear shall, as from the due date thereof, bear interest at the prescribed rate for the time being.

Before making any advance under this Act, the commissioners shall take security by way of mortgage, in the prescribed form, with such additions or variations as the commissioners may consider necessary in the circumstances, and with or without such additional or collateral security as the commissioners may require.

The commissioners may, in any year in which a borrower has experienced a failure of crops, or of seasonal operations, or has sustained any fortuitous loss in connection with such operations, refund to the borrower the whole or any part of any instalment of principal or interest, or of principal and interest, which may become due to the commissioners under the provisions of any security, but subject to the liability

of the borrower to repay to the commissioners such refunded instalment or any part thereof, together with interest thereon at the rate provided for the principal sum, at such future date as may be required by the commissioners, and the same shall continue as charge under the security held by the commissioners as if the refunded instalment or part thereof had not been paid to or received by the commissioners.

Other Loans made by the Bank

Besides making advances under the Agricultural Bank Act of 1934, the bank has also been entrusted to make advances under the Industries Assistance Act, the Group Settlement Act, and the Drought Relief Act.

Since the reorganisation in 1935 the bank has been busy with its difficult task of overhauling the institution and revaluing the old securities, writing off losses, selling and leasing properties that have come into its hands owing to default, etc. It is clear that these activities do not leave much time to the authorities of the bank to do new business to any considerable extent. However, the new Board of Commissioners has been alive to the need of financing the primary producers, and during the year 1936–37 it advanced over 26½ thousand pounds to 350 applicants.[1]

[1] For details see "Agricultural Bank of Western Australia Report for the year ending 30th June, 1937".

CHAPTER IX

THE COMMONWEALTH BANK OF AUSTRALIA

Rural Credits Department

THE Commonwealth Bank of Australia is the "Central" bank of the country, and to review its activities is not strictly within the scope of this treatise. But it has two features which are of special interest to us in India, therefore these activities must be briefly mentioned. It has a Rural Credits Department, and probably the inspiration was taken from this bank in creating an Agricultural Credit Department in our Reserve Bank. In addition to the Rural Credits Department it also controls the Commonwealth Savings Bank of Australia. Now we shall briefly describe the work of the Rural Credits Department, and then shall give a brief account of the Commonwealth Savings Bank.

The Rural Credits Department of the Commonwealth Bank of Australia was established by an amendment of the Commonwealth Bank of Australia Act in 1925. In order to provide the necessary capital, the Act empowers[1]: (1) the Treasurer of the Commonwealth to advance to the Department a sum not exceeding £3,000,000; (2) the Directors of the Commonwealth Bank of Australia, subject to certain qualifications, to issue debentures; and (3) the Directors to pay 25 per cent. of the net annual profits of the Note Issue Department to the Rural Credits Department until the amount reaches £2,000,000.

The capital of the Department, which has been built up from the last-mentioned source only, has been steadily increased from £126,191 in December 1925 to £2,000,000 in 1934.

Advances are made against "primary produce", which must be placed under the "legal control of the bank". The

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[1] "The Commonwealth Bank Act, 1911–32." Government Printer, Canberra, Australia.

Act specifically defined "primary produce" as "wool, grain, butter, cheese, fresh preserved and dried fruits, hops, cotton, sugar and such other produce as is prescribed". Since the passing of the Act the following commodities have been added by proclamation: wine, spirits, meat, eggs, egg pulp, precious and other metals, broom millet, arrowroot, arrowroot flour, superphosphate, timber, canary seed, peanuts, fodder, jam, cotton-seed and cotton-seed products including linters, cotton-seed oil, cotton-seed cake, cotton-seed meal, cotton-seed cubes, soap stocks and sandalwood.

No provision is contained for the granting of assistance to individual producers, advances being confined to: (*a*) the bank (meaning the Commonwealth Bank of Australia) and other banks; (*b*) co-operative associations formed under the law of the Commonwealth, a State or a Territory under the authority of the Commonwealth; and (*c*) such corporations or unincorporated bodies formed under the law of the Commonwealth, a State, or a Territory under the authority of the Commonwealth as are specified by proclamation.

Co-operative concerns have freely availed themselves of the assistance.

In addition to the granting of accommodation by way of overdraft, provision is also made by the Act for the discounting of bills secured upon the produce placed under the legal control of the bank.

The net profits of the Department are dealt with as follows: (*a*) one-half to a Reserve Fund; (*b*) one-half to a Development Fund. The total net profits earned by the Department since its establishment up to 31st December, 1937 amount to £519,630; the half-yearly profit rose from £37 in December 1925 to a maximum of £56,163 in June 1931. The profit for the year 1937 amounted to £40,041.

The Act provides that the moneys standing to the credit of the Development Fund may be utilised in such manner as the Board of the Commonwealth Bank of Australia directs "for the promotion of primary production". Grants have been made to State Departments of Agriculture for dairy

herd recording purposes, dairy research, improvements in stud stock and investigation into intensive farming methods and fruit culture. "The Better Farming Train" (Victoria) has been subsidised, while grants have also been made to the Council for Scientific and Industrial Research for investigation into plant and fruit diseases. Assistance has been given to the Universities at Sydney and Adelaide towards buildings having relation to plant diseases and agricultural research; the Central Technical College, Brisbane, has also been subsidised for purposes of studies of wool scouring methods. A total amount of £200,000 has been made available in the manner specified.

The fundamental principle of the scheme is the granting of assistance to primary producers pending realisation of products. The Act provides for the liquidation of advances within one year.

The practical application is two-fold: (*a*) to provide accommodation to cover processing costs, as in the case of canned and dried fruits; (*b*) to provide initial advances to producers.

The advance is fixed on a percentage basis of the bank's valuation of the product. It generally provides for an initial advance to growers and further progressive payments as the produce is realised. A condition is invariably imposed to the effect that all proceeds of sales must go in permanent reduction of the debt, but additional accommodation to provide for further advances to producers may be made available as and when realisation of the product is considered to have progressed sufficiently satisfactory to warrant such additional accommodation.

The successful operation of the scheme involves very close examination of the state of the industry concerned and prevailing market conditions, as well as cordial co-operation among the bank, the Department of Commerce and various other marketing boards.

A provision has been made in the Act to authorise the bank to issue debentures not exceeding eight million pounds

to finance the primary producers. The debentures are to be repaid as soon as the advances made by the bank to the primary producers are realised. The Treasurer of the Commonwealth of Australia has been authorised, as already stated, to make advances to this Department to the extent of three million pounds. The Board of the Commonwealth Bank has been given the power to make temporary advances out of the funds of the general Banking Department. So far no opportunity has arisen to borrow money either from the Treasurer or to issue debentures. Since the inception of these advances the bank has advanced over sixty million pounds. Advances in any one year seldom exceed eight or nine million pounds, and as these advances are for short period and are repaid from time to time, advances outstanding at any one time seldom exceed five million pounds.

Temporary finances in excess of the Department's own resources are obtained by borrowing from the general Banking Department. Many industries that were previously financed by the State Governments or the associated banks now obtain accommodation from this Department. The substantial saving in interest charges is a very material advantage to various industries, which were previously, in many cases, financed by large commercial houses abroad at considerably higher rates.

The aim of the department has been to facilitate the marketing of the primary produce in an orderly manner and to enable the payment of early advances to growers. In order to assist the primary producer the bank has always charged a lower rate of interest on advances from this Department than that charged on general banking advances.

The question of effective legal control has often raised difficulties. In most cases a registered debenture charge over the product is taken, but sometimes it is necessary for the merchandise to be stored with a licensed warehouseman, the relative bond warrants, duly endorsed, being held by the bank. Where shipments are made either on account sale or on consignment, the relative shipping documents are handled

by the bank, and, in the case of consignments, delivery of documents is effected against the agents' trust receipt and undertaking to account for proceeds as the merchandise is realised.

The Rural Credits Department, as at present constituted, is capable of rendering considerable assistance to the primary industries in Australia. With more intensive cultivation, increased population and general development, it is considered that localised co-operative schemes similar to those so successfully established in Germany by Reiffeisen to aid the individual producers would very materially assist in solving the problem of rural finance in Australia. The Rural Credits Department, however, must be regarded as a very useful adjunct to any such scheme. It is highly desirable that our Reserve Bank should also help the primary producer.

CHAPTER X

THE COMMONWEALTH SAVINGS BANK OF AUSTRALIA

THE Commonwealth Savings Bank of Australia was established by the Commonwealth Bank Act of 1911 as a department of the Commonwealth Bank of Australia, and commenced business in 1912.[1] The business of the State Savings Bank of Tasmania was taken over in 1913, of Queensland in 1920, and of New South Wales and Western Australia in 1931. In terms of the relative agreements the profits and losses of Savings Bank business in these States are shared with the State authorities (in New South Wales with the Rural Bank and in the other States with the State Governments) subject to certain qualifications in the case of New South Wales. These authorities also have the right to borrow from the Commonwealth Savings Bank 70 per cent. of any increase in Savings Bank deposits in the respective States. Interest on these loans is charged at 1 per cent. above the maximum rate allowed to depositors.

In 1927 the Commonwealth Bank Act was amended and the Commonwealth Savings Bank of Australia was made a separate institution, the assets and liabilities of the Commonwealth Bank in respect to its savings business being transferred to it. The amending Act provided for the management of the Savings Bank by a Commission consisting of three persons, but until the appointment of the Commission it was to remain under the management of the Board of Directors of the Commonwealth Bank. No Commission has been appointed so far, and the board of the Commonwealth Bank still manages the Commonwealth Savings Bank. It is very likely that it will continue to do so, as the Royal Commission has recommended that the provision in the Commonwealth

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[1] See the statement submitted by the Chairman of the Commonwealth Bank of Australia to the Royal Commission on Monetary and Banking Systems in Australia.

Bank, Section 35 (E) for the separate control of the Commonwealth Savings Bank should be repealed.[1]

Functions of the Commonwealth Savings Bank of Australia

The bank has been authorised to do the following types of business: (*a*) to carry on the general business of a savings bank; (*b*) to acquire or hold land on any tenure; (*c*) to make advances by way of loans.

The Commonwealth Housing Act of 1927–28 authorises the Savings Bank to advance money to prescribed authorities which finance the purchase or erection of dwelling-houses and the discharge of mortgages.

The Savings Bank has over three hundred branches and about four thousand agencies throughout the Commonwealth. It has also a branch in London for the convenience of its tourist depositors. It may be pointed out here that in the Commonwealth of Australia the post offices are managed by the Commonwealth Government and it is a subject of federal control as in India. But unlike India there are no Post Office Savings Banks. Before the Federation the State banks were doing the Savings Bank business, and for the convenience of their customers agencies had been opened in each post office. After the Federation came into existence the business of the post offices was taken over by the Federal Government and the savings bank work was entrusted to the Commonwealth Savings Bank. Now in almost all the Australian post offices there is an agency of the Commonwealth Savings Bank which looks after the savings bank business, but it is absolutely an independent body having nothing to do with the post office directly.

The maximum individual account on which interest is allowed is £1,300, except in Queensland, where the limit has been raised to £2,000. Deposits from Friendly Societies and other like bodies not trading for profit are accepted without limit, and interest is paid on the full balance. The present

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[1] "Report of the Royal Commission on Monetary and Banking Systems in Australia," p. 229. Government Printer, Canberra.

interest rate to depositors is 2 per cent. per annum on the first £500 in any account, and thereafter $1\frac{3}{4}$ per cent. per annum of the full balance.

There are no restrictions regarding the withdrawal of money and no previous intimation or notice is required.

The financial position of the bank is very sound and it is highly popular with the small investors. At the end of 1937 the bank had £139,000,000 in deposits. In the same year, after distributing £202,834 to the various State authorities as their share of profit, the bank had a net profit of £291,287, and the Reserve Fund had over two and a half million pounds. We reproduce on pages 129–30 the latest balance-sheet to show its financial position.

COMMONWEALTH SAVINGS BANK OF AUSTRALIA

Balance-Sheet as at 31st December 1937

LIABILITIES	£	s.	d.	£	s.	d.
Reserve Fund				2,749,841	4	9
Depositors' Balances ..	139,191,097	17	7			
With Interest Accrued	1,256,132	9	4			
				140,447,230	6	11
Contingency Account and Other Liabilities				6,388,924	10	8
				149,315,996	2	4

ASSETS	£	s.	d.
Coin, Cash Balances and Money at Short Call	23,259,703	12	5
Australian Notes	194,401	10	0
Government Securities	90,445,314	16	1
Securities of Municipalities and other Public Authorities	31,278,482	19	9
Other Assets	3,239,623	9	0
Bank Premises	898,469	15	4
	149,315,996	2	4

Dr. *Profit and Loss for half-year ended 31st December 1937* *Cr.*

	£	s.	d.		£	s.	d.
To Savings Bank Reserve Fund	70,284	18	1	By Profit for half-year ended 31st December 1937, after provision for payments amounting to £96,041 7*s.* 9*d.*, due to State Authorities under Savings Bank Amalgamation Agreements	140,569	16	2
,, National Debt Sinking Fund	70,284	18	1				
	140,569	16	2		140,569	16	2

Dr. *Reserve Fund* *Cr.*

	£	s.	d.		£	s.	d.
To Balance	2,479,841	4	9	By Balance	2,409,556	6	8
				,, Transfer from Profit and Loss Account of one-half of the Net Profits	70,284	18	1
	2,479,841	4	9		2,479,841	4	9

CHAPTER XI

THE LAND AND AGRICULTURAL BANK OF SOUTH AFRICA

THE Land and Agricultural Bank of South Africa was established in October 1912. One of the chief aims of the Bank is to grant cash loans to farmers against first mortgage of land in the Union. These loans are granted for all *bona fide* farming operations, as, for example, payment of the balance of the purchase price of land; redemption of mortgages in respect of which payment is demanded by the mortgagee, or in respect of which the rate of interest is excessive; the discharge of liabilities incurred for farming purposes; to effect necessary improvements such as buildings, fencing, dipping tanks, clearing of land for cultivation, planting of trees or orchards, and for the purchase of live-stock and plant of all kinds.[1] One thing must be remembered about these loans; these are granted only to European citizens of the Union. Loans are granted by the central board not exceeding 60 per cent. of the fair value of the security.

During 1933, when the rural population was not in a position, after years of depression, drought, low prices and depredation of locusts, to meet their obligations, while money-lenders and money-lending institutions called in their mortgages wholesale, and while the farmers stood on the brink of being sold out, the Government introduced a legislation whereby the Land Bank was empowered on behalf of the Government, to grant loans for certain specified purposes up to 100 per cent. of the value of the security. Such loans are only granted in cases where the Land Bank is not in a position to grant them in terms of the ordinary provisions, as, for example, when the land is too heavily mortgaged, or when the amount applied for exceeds 60 per cent. of the valuation fixed by the Board. In such cases the Land Bank is

[1] *Handbook for Farmers in South Africa*, third edition, page 1141. Department of Agriculture, Pretoria.

entitled, on behalf of the Government, to grant a loan, provided the applicant can satisfy the Central Board that he has a reasonable chance, with the financial assistance, to be obtained from the bank, of making good and meeting his obligations in the future. The minimum amount that the bank is allowed is £50, and until recently it could not advance a sum exceeding £2,000, but this statutory restriction has now been removed. The loan can be made for a maximum period of forty years, to be paid by yearly or half-yearly instalments on amortisation basis. During the first three years interest only is charged. The present rate of interest is 4½ per cent. per annum. Instalments can be arranged to suit the convenience of the borrower in such a way that these should fall due on the dates when he receives the major portion of his income, and when he is therefore in a position to pay. Advances may at any time be liquidated in full together with interest up to the date of repayment. The amount due may also be reduced by payments over and above the permissive instalments. Advances are also made by the bank under the following heads:

Fencing, Dipping Tank, Silos, Water-Supply

(1) Fencing Advances. Advances are made under the provisions of the Fencing Act, No. 17 of 1912, and amendments, for the fencing of land. (2) Dipping Tank Advances. These advances are made under the provisions of the Dipping Tank Advances Act, No. 20 of 1911, and amendments, for the construction of dipping tanks. (3) Silos Advances. Under Section 16 of Act No. 36, 1921, and amendments, advances are made for the construction of silos or other contrivances for the making or storage of ensilage. (4) Water-Supply Advances. These advances are made under the provisions of Section 9 of Act No. 32, 1924, and amendments, for providing water-supply for windmills or other mechanical contrivances for pumping water.

These advances are made on the security of a lien or charge on the land. The nature of the lien is such that the land cannot be transferred, before the instalments, which

have become due under the loan, are repaid. An interesting feature of the advances made by the bank is that it also makes advances, not only to the owners of land, but also to the lessees who have taken a lease of land from the Crown and whose period of lease does not expire before ten years. No advances are made for the purchase of further land, unless the applicant shows that his present holding is inadequate, and he knows the business of farming well and is likely to benefit by the purchase of more land.

Loans to Co-operative Societies

Loans granted to farmers' co-operative societies or farmers' co-operative companies may take the form of fixed instalment loans, or seasonal loans, and are granted for the following purposes: (*a*) Fixed instalment loans are granted for acquiring land, erecting buildings and the purchase and installation of plant, machinery and equipment, such loans are granted for a period of ten years, and are repayable in equal instalments *plus* interest at 4½ per cent. per annum.

(*b*) Seasonal loans are granted for one harvest year for (i) the purchase of grain bags or other packing materials to be supplied to members; (ii) covering costs in connection with the export of certain classes of products as, for instance, fruit; (iii) making advances to members against produce actually delivered to a co-operative society or company.

The distinction made in the Co-operative Law between a Co-operative Agricultural Society and a Co-operative Company is that in a society the members are jointly and severally liable for payments of its debts and obligations, while in a Company the liability of members is limited to the value of the share or shares held by such members. They have also to assume contingent liability to those members who voluntarily offer themselves for the subscription. The bank grants advances only to those societies which are registered under the Co-operative Societies' Act. The bank advances are made only to those companies which have issued at least some shares with contingent liability. Loans are granted to both societies and companies for periods not exceeding ten

years, payable in such instalments as the Board of the bank fixes. This sort of loan is usually granted to co-operative societies and companies for the purchase of immovable property, the erecting of buildings, and the purchase of plant and machinery. The board charges a rate of interest which is dependent upon the cost of the capital to the board itself. The interest is paid only for the first two years, and after that both the capital and interest are repaid by half-yearly instalments.

Seasonal Advances

The bank also opens a cash credit account for these societies and companies, and during the currency of the account, such societies and companies are authorised to draw moneys from the bank. This form is usually adopted when the capital is required to make advances to members against produce actually delivered to the society or company, and also to put the society or company in a position to pay for grain bags and other produce containers. During the months when the produce is being delivered, money is drawn from the bank, and is repaid when such produce has been sold. The currency of such loans is fixed at a harvest year of the produce handled. Generally the credit facilities under the cash credit account are available for one season only. Taking the case of Mealies as an example, the bank would fix the currency of the cash credit with the Mealies harvest year that is the 1st July to 30th June. If the society or company is affiliated to the Central Agency of Co-operative Societies, which attends to the sale of produce for that society or company, the bank makes it a condition of cash credit accounts that the borrowing society or company must authorise the Central Agency of Co-operative Societies to pay the proceeds of the sale of produce direct to the bank, so long as any debt is owing under the cash credit account. The rate of interest varies from season to season and at present it is $4\frac{1}{2}$ per cent. per annum. Loans are also granted to the societies and companies to meet the costs incidental to the export of produce. These costs include packing material, railage, port charges,

shipping freights, and all other expenditure reasonably incurred in placing and selling produce on the overseas market. The security of an advance to a society is the members' joint and several responsibilities to pay the society's debts and obligations. The bank's willingness to advance money to a society is naturally dependent upon the financial position of the members. The members must be financially strong enough collectively to be able to repay the advances.

In addition to the security of the commodity exported, the bank has the following additional security: (*a*) assets of the amount of unpaid capital; (*b*) cessation of the amount of contingent liability attached to the company's shares; (*c*) any other further securites which the Central Board thinks necessary. This further form of security is generally a lien over the assets of the company, and the directors are asked to give their joint and several responsibility. It is considered necessary that a special security should be taken from the directors, because when they are involved in it, they will spend money wisely and cautiously. Further, the directors are also responsible and competent persons who know the affairs of their company. The bank's view is that the directors must assume some special liability because in that case they would use the money wisely. The main security of an export advance to the company is the produce itself, the export of which is being financed out of the proceeds of the advance. It is a condition of the advance that the produce must be consigned to a co-operative organisation and its sale should also be undertaken by such organisations overseas approved by the Central Board of the bank. Export advances are generally granted in the form of a cash credit account and are repayable in one year. No further export advances are given unless the previous advances have been paid back. The rate of the interest is the same as charged on ordinary cash credit.

Capital of the Bank

The bank commenced business with a capital of £2,735,000. Its capital is not fixed, and consists of the amount mentioned

above, together with (*a*) such further moneys as Parliament may from time to time authorise the Minister of Finance to pay to the bank ; (*b*) any moneys paid to the bank under any regulation under any law, as a part of its capital, and (*c*) such further amounts as the bank may be authorised to raise for the purpose of financing co-operative organisations by means of (i) discounting with other banks bills of co-operative organisations ; (ii) overdrafts with other banks ; (iii) issuing land bank bills, and (iv) receiving moneys withdrawable at not less than three months' notice. The Parliament has been making liberal apportions for the financing of the operations of the bank, and at the end of 1936 the capital funds of the bank were £15,234,950.[1] The reserve fund of the bank at the end of 1930 was over one million pounds. The Central Board, as a matter of policy, does not encourage the receiving of fixed deposits.

Cost of Capital

The Act provides that the bank should pay interest at the rate of $3\frac{3}{4}$ per cent. per annum on its capital, but this rate may be increased or reduced by a resolution of the Parliament ; at present the bank pays $3\frac{1}{2}$ per cent. per annum to the Treasury for the capital that has been placed at the bank's disposal.

Management and Control

The Central Board

The bank is a body corporate and its operations and policy are controlled by the Central Board, consisting of a chairman and six ordinary members, each of whom is nominated by the Governor-General. In addition to the Central Board, there are five local boards consisting of three members who are also nominated by the Governor-General. These local boards are purely advisory. In addition, every magistrate, field cornet, the Postmaster-General and any officer under him, are by law appointed agents to the bank when required by the Central Board to assist in any matter. The

[1] *Official Year-Book of the Union of South Africa*, 1937, p. 654.

Central Board has evolved an excellent system of land valuation. The applicant hands his application to the magistrate of his area with the necessary fees, the magistrate sends this form to the land bank valuer. In each district there are several land bank valuers. The application is sent to the valuer by the magistrate, who happens to be nearest to the property offered for the advance. The valuer makes his valuation and returns the form to the magistrate. Valuation made by the valuers are confidential. The magistrate sends the application to the bank with his own remarks as to the value of the property and the character of the applicant. Where applications for advances are of an urgent nature, the bank deals with them directly. Applicants are not allowed to send their applications direct to the valuers. In order to properly safeguard the interests of the bank, it is one of the conditions of the advances that the title deeds of the property mortgaged are filed with the bank.

Advances Made by the Bank

Since its beginning, the bank has advanced over sixteen million pounds to farmers on mortgage security. During the year 1937 the bank advanced £2,765,870 to 2,818 farmers, that is, an average loan of £981, and it advanced loans to co-operative societies and companies to the extent of over three million pounds.

It is very gratifying to note that the advances of the bank are repaid fairly regularly. The arrears in 1937 against capital invested were only 1·680 per cent.

Since its establishment the bank has been earning net profit every year. The total sum earned as net profits so far exceeds one and a quarter million pounds.

Chapter XII

THE STATE ADVANCES CORPORATION, NEW ZEALAND

State Advances Corporation

In order to provide long-term credit to the farmers, the Mortgage Corporation of New Zealand Act was passed in 1934. This statute authorised the creation of a corporation to be managed by a board composed of directors appointed partly by the State and partly by the shareholders of the corporation. The share capital of the corporation was fixed as one million pounds which was to be subscribed by the public. By the State Advances Corporation Act, 1936, the private capital invested in the mortgage corporation was cancelled, provision being made for repayment to shareholders in respect of shares held in the corporation. The capital of the corporation was maintained at one million pounds, the entire amount of which was subscribed by the Government. Now, all securities issued by the corporation carry a State guarantee for the repayment of principal and interest. The management of the corporation is vested in a board of directors consisting of two joint-managing directors, appointed by the Govenor-General in Council, one or more directors similarly appointed and an *ex-officio* member (necessarily a Treasury official) appointed by the Minister of Finance. In the exercise of its powers, the board is enjoined to have regard to any representation that may be made by the Minister of Finance. Every direction given in writing by the Minister of Finance is binding on the board.

Functions of the State Mortgage Corporation

Following are the principal functions of this corporation: (1) To make advances to settlers or workers under the State Advances Act, 1913, and amendments; (2) to make advances under the Rural Advances Act, 1926, and amendments; (3) to make advances to local bodies; (4) to make advances

under the Discharged Soldiers' Settlement Act; (5) and to make advances out of the Settlement Account.

Advances to Settlers

Advances are made to settlers on the first mortgage security of land. Each application for a loan is individually considered by the board. The minimum and maximum amounts are fixed as £25 and £3,500 respectively for each borrower. The main purpose of the Act is to provide money for middle class owners, so applications for loans, not exceeding £500, are given preference over applicants who require larger amounts.

Loans are advanced up to two-thirds of the value of the land. The valuation of the land is made by the Valuer-General. The rate of interest is 4½ per cent. per annum repayable by half-yearly instalments. The first instalment is repayable six months after the loan. The half-yearly instalment consists partly of capital and partly of interest. Half-yearly instalments are paid according to the schedule prepared by the board.

These schedules clearly indicate the amount of all half-yearly instalments for every hundred pounds of the loan. They also indicate how much has been paid for capital, and how much for interest; the balance of the principal, owned by the borrower, and the date of each subsequent half-yearly instalment. The borrower is authorised to pay any sum (multiple of £5) for the redemption of principal whenever he likes. The nature of the security is decided by the board: for first class securtiy the period of the loan is 36½ years, and for second class 30 years.

Rebate of Interest

The board desires to encourage the early or punctual payment of prescribed instalments. Those borrowers who pay the instalments earlier than the prescribed date, or not later than fourteen days from the prescribed date of payment, are entitled to a small rebate. The board is expected to send a written note to the borrower one month before the

prescribed date of payment of the instalment, stating therein the full nominal amount repayable, the amount of the rebate and the day up to which the rebate concession may be obtained.

Readjustment of Loans

In order to remove the rigidity of the fixed instalment system, and to give greater elasticity to the existing provisions of the loan, the mortgager is allowed by permission of the board to readujst his loan under the following conditions : after a borrower has paid at least one-tenth of the principal and has not been in arrears with any previous instalments, he may be allowed to readjust his loan as a new loan, but the amount of the principal to be repaid must be not less than £100. Such readjustments are made by a memorandum which is prepared by the board. Such memorandum may be endorsed on the previous mortgage and no registration is required.

Since the inception of these advances over fifty million pounds have been advanced to the settlers. These advances began in 1894, to provide cheap credit facilities for the farmers. Previous to this, interest rates were very exorbitant and the charges associated with the borrowing of money were also very high. The preamble of the Act clearly states its purpose : " Whereas by reason of the high rate of interest charged on the mortgage of land, and heavy incidental expenses connected therewith, settlers are heavily burdened, and the progress of the Colony is much retarded ; and whereas it is expedient that the Government should afford such relief in the premises as is consistent with the public safety."[1]

Advances under the Rural Advances Act of 1926

Advances under this Act are granted on more or less the same conditions as advances under the Settlers' Act, with the main difference that the maximum amount advanced is much higher than the advances in the case of the Settlers' Act, and these advances are chiefly confined to sheep farmers

[1] The State Advances Act, 1894.

who are operating on a large scale. Since the inception of these advances in 1927, over five million pounds have been advanced.

In both these advances the corporation advances up to two-thirds of the value of the security, but it is authorised under the Act to make extension of this limit in certain specified cases. In such cases the Minister of Finance guarantees the corporation against the loss attributable to the excess of the loan over two-thirds of the security.

In order to provide finance, the corporation is authorised to issue bonds, stocks, or other securities which are guaranteed by the Government. In addition to its primary function of providing cheap long-term credit to the primary producers, it also makes loans to local authorities out of the Housing Account for the purpose of erecting workers' dwellings and also it makes advances out of its own funds for the development of existing industries or for the establishment of new industries in rural areas. The corporation is authorised to make advances for a period not exceeding fifty years, or in certain cases a loan may be granted only for five years, to be repaid at the end of this period in a lump sum. A mortgager may be required to effect a policy of life insurance as additional security, such policies have to be assigned to the corporation. A mortgager is not allowed to give any subsidiary mortgage or any other charges over land without the written permission of the corporation.

Loans made by the corporation for the development of rural industries have to be first investigated by the Bureau of Industry, and have to be approved by the Minister of Finance before these can be finally granted by the corporation.

The lending rate of the corporation has been reduced to the minimum possible level, that is, $4\frac{1}{8}$ per cent. per annum. Owing to its liberal lending policy the corporation received 7,730 applications in 1937 for loans of various types amounting to over eight and a quarter million pounds, and the board authorised that the corporation should advance £4,385,866 to 4,139 applicants. The corporation is authorised to open

branches, and it has so far opened five branches. The total assets of the board exceed fifty-six and a half million pounds, and it made a net annual profit of £534,849 in 1937. It has also a reserve fund of over three and a quarter million pounds.[1]

The members of the Board of the State Advances Corporation also manage the advances made under the Rural Intermediate Credit Act, 1927, and when making these advances these members constitute the Rural Intermediate Credit Board.

Rural Intermediate Credit

An Act to provide credit facilitits for over six months, and not exceeding five years, called the Rural Intermediate Credit Act was passed on the 3rd October 1927. The Act came into operation from the 1st June 1928.

The passing of the Rural Intermediate Credit Act is a practical step taken by the State to provide marketing and intermediate credit which was so badly needed in a new country like New Zealand. The farmer benefits by the Act in three different ways: (1) it provides loans to the farmers, whether individuals or members of Rural Intermediate Credit Associations; (2) it lends to Farmers' Co-operative Societies; (3) it discounts farmers' paper for banks and other approved financial institutions. The drawback of the system is that it provides very little credit as compared with private agencies.

Loans to the Farmers

It lends to farmers for the following purposes: (1) for the general improvement of land, for fencing, for drainage and clearing of land; (2) to erect farmhouse buildings; (3) for the purchase of live-stock, implements, seeds, manures and other such requirements; (4) for the repayment of old mortgage debts incurred by the farmer for farming purposes; (5) for any other such purpose which is related to his business in the opinion of the board.

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[1] "Report of the State Advances Corporation for the year 1937." Government Printer, New Zealand.

Maximum Amount of Loans

The board was originally authorised to advance a maximum amount of £1,000 to an applicant, but the Act was amended in 1929 and the limit was raised to £2,000. Later the 1936 Act (State Advances Corporation Act) abolished the maximum limit restriction.

Repayments

The borrowers are allowed to make repayments at any time when it is convenient to them, without premium interest, and without any notice.

Co-operative Rural Intermediate Credit Associations

The Rural Intermediate Credit Act makes provisions for the establishment of societies with limited liabilities with a special name of Co-operative Rural Intermediate Credit Associations. The purpose of the establishment of such associations is to enable the farmers to unite themselves in the form of such associations for their financial requirements, and to borrow money on their collective security at cheaper rates. The liabilities of the members of such associations are limited to the face value of the share or shares to which they have subscribed. These associations borrow funds from the board, or from other sources, and relend them to their members on approved security. Such associations are prohibited by law from undertaking any trading operations.

Formation of Associations

The minimum number required to form such associations is twenty. They must be *bona fide* farmers, and each must subscribe at least twenty-five £1 shares. They are further required to sign a Memorandum of Association, describing the objects of the association. The Memorandum must be in the standard form provided by the Act.

Such associations, before they are registered, are required to form and sign regulations describing their internal management, and regarding other matters such as dealing in their shares, rights of the shareholders, the election, duties and powers of directors. After the Memorandum is completed, which

must be signed by at least twenty farmers, an application should be made to the Registrar, and his consent should be secured for the registration of such associations.

Before the board gives its assent to the registration of such associations, it requires that two copies of the Memorandum of Association should be sent to the District Intermediate Credit Supervisor of the district in which the association is to be formed. The Supervisor requires the details of the financial standing of the signatories. After the examination and the minute scrutinisation of the papers submitted, together with the examination of the farming experience of the signatories, he reports to the Central Board. If the board is satisfied, and consents to the formation of such associations, it can be registered at the Office of the Local Assistant Registrar of Companies and is allowed to begin its work.

The Board's Assistance towards the Formation of such Associations

The board has the power to grant loans free of interest for one year to such associations, for the repayment of the preliminary expenses incurred in connection with the registration of such associations. The maximum amount of such loans is £25 for a period not exceeding ten years. The preliminary expenses for the registration of such associations are much lower than the expenses incurred by commercial companies and hardly exceed £9. Such associations are exempted from the payment of Stamp Duty, payable on the incorporation, and on certain documents. The associations are further exempted from the payment of an annual licence which is compulsory for ordinary companies. The board provides another concession to such associations. It lends to such associations at a rate of one-half per cent. lower than its general rate, otherwise, after meeting the expenses of management it will not be possible for the associations to lend to their members at rates on which farmers can borrow directly from the board. This ½ per cent. concession is given on the condition that the associations should exercise rigid control and economy in the expenses of their management.

Of this ½ per cent. one-fourth should be applied for the expenses of management, and the remainder should go in setting up a reserve fund. Associations have been further allowed to charge the following fees to the members for the expenses of management: Applications for loans up to £500, ten shillings and six pence; over £500, one pound and one shilling.

Members of the Associations and Their Share Contribution

Any person who wants to become a member of the association must subscribe twenty-five £1 shares.

If a shareholder wishes to borrow from the association, he must take one share for every £10 or part thereof borrowed. The amount of his subscribed shares can be counted towards borrowing, provided that his minimum contributions remain £25. A member's contribution will, therefore, vary according to his loan. If he wishes to borrow £250, his share capital invested in the association will be £25, and if he wishes to borrow the maximum amount of £1,000 his share contribution will be £100. The whole of the share capital is not payable immediately. He must pay at least one shilling per share at the time of subscription The share capital must be invested in approved Government securities.

Application for Loans

The applications are addressed to the Secretary of the Association and the applicant is required to pay the following fees: (*a*) the sum of money to be deposited with the Secretary for the valuation of the property (the amount to be deposited depends upon the discretion of the Secretary); (*b*) those persons who are not members of the association are required to purchase the shares of the association in proportion to the loan. The number of shares subscribed shall in no case be less than 25. The security offered for these advances will be valued by a valuer appointed and approved by the board.

If the application is approved by the directors of the association it is sent to the Central Board, through the Intermediate Credit Supervisor of the district. If the Central Board approves the application, it will lend money to the

association, to enable it to grant an advance to the borrower. The applications for loans must be approved by the Central Board, even if the association raises money from other sources. The associations, in addition to loans taken from the Central Board, borrow money from the banks, and other financial institutions, but in each case the association is required to obtain permission of the Central Board.

Loans to Individual Farmers

The Rural Intermediate Credit Act also makes provision for lending to individual farmers in cases where associations cannot be formed. Such farmers are required to provide guarantees for at least 20 per cent. of the advance, to the satisfaction of the board. Loans are only granted to individual farmers on the security of first mortgage on chattels, including cattle. The board may, at its discretion, require collateral security. The guarantee which the board generally requires is that of a good limited liability company, such as a dairy company or stock and station company. The guarantees of individual persons are also taken, provided they have a strong financial position, and the board is satisfied to this effect. Such individual farmers have to pay a rate of interest one-half per cent. higher than the rate charged from an association. The loan should be repaid within five years.

Loans to the Farmers' Co-operative Organisations

The Central Board is authorised to grant loans to co-operative companies, whose principal object is to help the farmers in the production or sale of staple agricultural products and live-stock. The loans are granted only to such co-operative companies as have a subscribed capital of at least £2,500 and a membership of not less than thirty persons. The loans are granted up to 80 per cent. of the market value of the products owned by such companies. The security generally required is that of goods in possession of the company. The board may also require collateral personal securities. The periods of loans granted vary from six months to three years. The rate fixed for such loans is 4½ per cent.

which may be changed at the discreton of the board. The loans are granted only to those co-operative companies which are approved by the board.

Discounting

The board is authorised to discount for banks and other approved financial institutions, which include stock and station companies, and dairy companies, promissory notes and bills of exchange given by the farmers. The limit of such advances is fixed at £100 for each individual farmer.

The board until recently was prohibited by law from making an advance of more than £2,000 to an individual farmer including every sort of loan made by the board, so that the amount of accommodation provided by discounting depends upon the previous advances of the board made to an individual. The rate of discount is fixed at 4½ per cent. variable at the discretion of the board.

Funds of the Central Board

The funds of the Central Board come from two sources: (1) The Consolidated Fund. (This fund has been authorised by legislation for advances.) (2) Issue of Debentures. (The board issues debentures to the public.)

Advances from the Consolidated Fund

The Rural Intermediate Credit Act of 1927 empowers the Minister of Finance to advance to the board, from the Consolidated Fund, by way of loan up to £400,000. It also authorises him to make advances up to £10,000 to meet the expenses of administration and establishment.

The advances from the Consolidated Fund are made for a period of twenty years. For the first ten years these advances are free of interest, and after that period, the board will have to pay interest fixed by the Minister of Finance. The board is allowed to use two-thirds of this money for loans. The rest must be invested in approved Government securities for the protection of debenture holders; one-half of the profits of the board will also be invested in this fund, and from this fund debentures will be redeemed.

Issues of Debentures

The board is authorised with the permission of the Minister of Finance, to issue debentures to the value of five million pounds, but the amount of the debentures should not exceed the sum-total of advances from the Consolidated Fund and the amount of investment in the business account of the board.

Security of Debentures

The debentures are issued by the board on the security of its assets. The debentures remain a floating charge on the assets of the board and have preferential claims on them, over the rights of the Crown, to receive repayments made from the Consolidated Fund. In order to secure the interest of the debenture holders, the board is ordered to invest half of its profits in the reserve fund for the redemption of the debentures. The debenture holders' interest will not be jeopardised by paying the interest of loans to the Consolidated Fund because these advances are free of interest for ten years and, in the meantime, the board will increase its reserve fund so as to secure the redemption of the debentures, and to repay the interest to the Crown.

The debenture holders are further protected by Section 32 of the Act which provides that in either of the following cases the debenture holders can make a petition to the Supreme Court for the appointment of a Receiver on behalf of the general body of debenture holders: (*a*) if the board makes default in payment of any principal or interest secured by the debentures; (*b*) if the audited accounts for any year disclose a loss on the board's operation exceeding twenty-five per cent. of the total amount raised by the board by debenture issues.

The debentures are issued for a period ranging from six months to five years. The maximum interest allowed on these debentures is 4 per cent.

These debentures are a valuable investment for those farmers who want to invest their money in gilt-edged security. The farmer should invest money in these debentures because

they help the farming community as a whole and bring a good return to the investor.

Policy of the Board

"The main purpose of the Rural Intermediate Credit system is to improve the existing machinery by organisation and supervision, and to create a greater degree of confidence in Rural Securities—mainly chattels and the like—than has existed in recent years, and so to secure a flow of funds for investment upon those securities at reasonable rates."[1]

Individual lending and borrowing has been replaced by collective lending and borrowing in the field covered by the system. The board has secured funds on more advantageous terms than an individual could, and it lends at somewhat cheaper rates than competitive institutions. The borrowers can borrow at lower rates of interest, and the lenders are enabled to invest their capital with a negligible risk.

At the inauguration of the system, many applications were received where the applicant had no adequate security. It was a prevalent notion that the new system had been started for helping such people. But the system of Intermediate Credit has not been started as a charitable institution and such people had to be disillusioned. The board has now been in operation for about ten years. It has succeeded in lowering the rates of interest, and in securing greater confidence in Rural Securities. A similar policy has also been practised with great success in the United States of America.

The following lines from the Federal Farm Loan Board's Report for the year ending 31st December 1924, indicate the American policy:

"The losses which the Intermediate Credit Banks have charged off are negligible. That losses will occasionally occur in any banking enterprise, is to be expected, but by adhering to policies already adopted, which are considered as liberal as business prudence justifies, they will never be a disturbing factor. But that a departure from these policies

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[1] "Report of the Rural Intermediate Credit Board, 1928."

will result in a failure of service, cannot be too often emphasised. It has been necessary to reject many applications for loans, and rediscount privileges. Should every application be granted, and unsound and inadequately secured loans taken on by the banks, the entire system will be discredited in the investment markets, and the service necessarily denied to worthy applicants, since the service is dependent upon the ability of the banks to market securities in volume."

The Central Board in New Zealand has always kept an eye on economy and endeavours to work the system at as cheap a cost as possible and to provide the borrower with accommodation on reasonable terms. Valuation fees charged are as low as possible, and applications for credit are dealt with promptly. With the same purpose in view, the District Boards have been authorised to grant loans, without the intervention of the Central Board, up to £250. The board pays special regard to the purpose for which the loans are required.

Chapter XIII

THE FARM CREDIT ADMINISTRATION, U.S.A.

The Farm Credit Administration is the biggest experiment in agrarian banking in the world, and, perhaps, the least criticised and one of the most constructive achievements of the New Deal. In the beginning of 1933 there were five different federal farm credit agencies which were catering for the credit needs of farmers, without any central co-ordination, and more often than not were competing with each other in providing credit. In 1916 federal land banks were established. In 1923 the federal intermediate credit banks were organised to provide so-called intermediate credit, and their management was entrusted to the federal farm loan board which was managing the federal land banks. The Crop Production and Seed Loan Offices, which were really a legacy of the War period and were under the Secretary of Agriculture, remained under him to provide emergency short-term relief credit. In 1929 the federal farm board was created as an independent agency to provide credit to co-operative associations for marketing purposes, and, finally, in 1932 the Reconstruction Finance Corporation set up Regional Agricultural Credit Corporations to provide production credit.

All these five agencies were deriving funds from the Federal Government in one form or another. The whole capital of the federal intermediate credit banks was subscribed by the Federal Government. The Revolving Fund of $500 million for the federal farm board, which was set up under the provisions of the Agricultural Marketing Act of 1929, was subscribed by the Treasury on behalf of the Federal Government. The funds used by the Crop Production and Seed Loan Offices were provided by special appropriations of Congress, and later from the funds of the Reconstruction Finance Corporation, the entire capital of which was subscribed by the Federal Government. The major portion of the capital of the federal land banks was subscribed in the beginning by the Federal

Government, but was eventually transferred to the National Farm Loan Associations until, at the end of 1931, almost all the capital was transferred to these associations, but the Federal Government had to subscribe again in 1932 when the capital of these banks was increased.

In spite of the fact that the Federal Government had invested a big amount of capital in all these lending agencies and they were under its supervision and control their administration was widely disintegrated. Owing to this disintegration, and to the absence of any co-ordinating link to harmonise their lending policies, there was great overlapping in their operations, especially in the field of short-term credit. Not only was there duplication of lending agencies, but there were also variations in the rates of interest charged by different institutions. For example, the Federal Farm Board was providing credit at very low rates of interest (average 2.9 per cent.), while the Regional Agricultural Credit Corporations were charging 6½ per cent.

"The farmers were not only confused as to the proper agency from which to obtain the desired loan, but also as to its location. For example, farmers in Northern Mississippi were served by the Federal Land Bank and the Federal Intermediate Credit Bank in New Orleans, Louisiana; the Regional Agricultural Credit Corporation at Jackson, Mississippi; and Crop Loan Offices at Memphis, Tennessee. On the other hand, Eastern Missouri farmers found all the four agencies in St. Louis, but no two of them in the same building."[1]

When President Roosevelt came to the White House early in March 1933, he realised this chaotic state of affairs. The agricultural horizon of the country was very dark indeed. The banking crisis of March 1933, further aggravated the situation. "This crisis brought a reduction of nearly 4,000 or 20 per cent., in the number of the country's banks.

[1] Address by W. I. Myers, Governor, "Farm Credit Administration," delivered during Farm and Home Week, Cornell University, on 14th February 1934.

Aggregate resources decreased by nearly five and a half billion or 10 per cent., compared with the peak which was $74,000,000,000, in 1930 ; the resources of the country's banks in June 1933 decreased to $50,000,000,000, a shrinkage from the peak of $22,700,000,000, or 21 per cent.'"[1]

Realising the gravity of the situation, and in order to bring about the co-ordination and centralisation of the existing credit agencies, the President issued an executive order on 27th March 1933, which was to be effective two months later. All the existing farm credit agencies were to be consolidated into one organisation—The Farm Credit Administration. This executive order became effective on 27th May 1933 when the then existing credit agencies were consolidated under one management, and board or committee management was replaced by individual responsibility. The Governor of the Farm Credit Administration is individually responsible to the President of the United States.

Organisation of the Farm Credit Administration

The management of the Farm Credit Administration has been entrusted to an executive officer who is called the Governor of the Farm Credit Administration, and is appointed by the President of the United States. He is individually responsible to the President. He is assisted by two deputy governors. In addition to the consolidation of the existing credit agencies, the Farm Credit Administration Act of 1933 provides for two new groups of institutions—Production Credit Corporations and Banks for Co-operatives. These new organisations together with the federal land banks and the federal intermediate credit banks provide under one administration a complete system of agricultural credit.[2]

It was in the mind of President Roosevelt when he made his first executive order after his inauguration, that there

[1] "Report of the Economic Policy Commission of the American Bankers' Association" quoted by Ellis Willerd, D., in an address before the Western Farm Economic Association, 21st June 1934.

[2] See p. 1, "Farm Credit Act, 1933". Public Document No. 75. 73rd Congress.

were two very urgent ends to be served in the then paralysed basic industry of agriculture. The first was to prevent at once, by every possible means, its complete bankruptcy, which was then threatened. In order to meet this situation the Emergency Farm Mortgage Act was passed in May 1933.[1] The second, hardly less pressing, was to build a complete, co-ordinated and permanent agricultural credit system which would provide for the farmer all varieties of agricultural credit at all times when he needed them, with a minimum of effort on his part. It was with this idea in view that the two new types of credit agencies were created.

For administrative purposes, the Farm Credit Administration has four permanent divisions: (1) the Land Bank Division; (2) the Co-operative Bank Division; (3) the Intermediate Credit Division; (4) the Production Credit Division.

Each of these divisions is entrusted to a Commissioner who is responsible to the Governor for the efficient management of this division.

The Land Bank Commissioner supervises twelve federal land banks, national farm loan associations, Commissioners' Loans,[2] and joint-stock land banks. The Co-operative Bank Commissioner supervises the newly created central bank for co-operatives, twelve regional banks for co-operatives, and the Resolving Fund of the Agricultural Marketing Act of 1929. He is also responsible for the twelve Regional Agricultural Credit Corporations which are temporary agencies and have no permanent place in the structure of the Farm Credit Administration.

The Intermediate Credit Commissioner supervises twelve federal intermediate credit banks, and also supervises the Crop Production and Seed Loan Offices on behalf of the Secretary of Agriculture. Like the Regional Agricultural Credit Corporations, the Crop Production and Seed Loan Offices

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[1] Discussed later.

[2] Commissioners' Loans have been authorised by the Emergency Farm Mortgage Act, which is discussed in a later section.

are temporary agencies, and have no permanent link with the Farm Credit Administration.

The Production Credit Commissioner supervises the newly created twelve Production Credit Corporations, and the Production Credit Associations. The General Council co-ordinates the policies of all the four departments. The following figures give a complete picture of the organisation of the Farm Credit Administration.[1]

ORGANISATION OF THE FARM CREDIT ADMINISTRATION, WASHINGTON OFFICE

FARM CREDIT ADMINISTRATION, WASHINGTON OFFICE

1 Governor

2 Deputy-Governors

1 General Council

Land Bank Commissioner	Co-operative Bank Commissioner	Intermediate Credit Commissioner	Production Credit Commissioner
Supervises: 12 Federal Land Banks	Supervises: Central Bank for Co-operatives	Supervises: 12 Federal Intermediate Credit Banks	Supervises: 12 Production Credit Corporations
National Farm Loan Associations	12 Banks for Co-operatives		Production Credit Associations
Commissioner Loans	Agricultural Marketing Act Revolving Fund		
Joint-stock Land Banks			

12 Regional Agricultural Credit Corporations

Crop Production and Seed Loan Offices

[1] "First Annual Report of the Farm Credit Administration, Washington, 1933."

TYPICAL ORGANISATION OF A FARM CREDIT[1] ADMINISTRATION DISTRICT

FARM CREDIT ADMINISTRATION 12 DISTRICTS

BOARD OF DIRECTORS

1 GENERAL AGENT

With President of the 4 Institutions shown immediately below, constituting Advisory Committee

Federal Land Bank	Bank for Co-operatives	Federal Intermediate Credit Bank	Production Credit Corporations
National Farm Loan Associations			Production Credit Associations

District Farm Credit Administration

The twelve federal land bank districts have been made the districts of the Farm Credit Administration, and the offices of all departments are located in a single town and in the same building. Their organisation follows the pattern of Washington offices. In each district organisation, there are four permanent credit institutions—a federal land bank, a federal intermediate credit bank, a Production Credit Corporation, and a bank for co-operatives, in addition to Local National Farm Loan Associations and Production Credit Associations. Under the new organisation these four main credit institutions are under the same board of directors.

There is a single board of directors for all the main credit institutions, which is called the Council of the Farm Credit Administration for the district, and provides for a unified policy. In order to co-ordinate the activities and to avoid the unnecessary duplication of personnel and facilities, the Governor of the Farm Credit Administration appoints an executive officer who is called the General Agent. The General Agent acts with the presidents of the four leading institutions as an advisory committee. The typical organisation of a Farm Credit Administration District is illustrated by the above figure.

[1] "First Annual Report of the Farm Credit Administration, 1933."

The organisation described above represents the effort of the Roosevelt Administration to provide a co-ordinated co-operative system of agricultural credit to meet the entire range of credit needs for agriculture on a permanent business basis at the lowest possible cost. The consolidation or supervision of existing credit agencies was not enough to provide a permanent system of agricultural credit to cater for all the needs of American farmers. The federal land banks and the federal intermediate credit banks were no doubt very suitable institutions for the new system, but it was not possible to modify the other existing credit agencies to suit it. Consequently they had to be liquidated and discarded. And in order to complete the system and to provide every type of credit, two new institutions were created. These were the banks for co-operatives, which were established to replace the loan activities of the federal farm board and direct loans to co-operatives by the federal intermediate credit banks; and the Production Credit Corporations which were established to organise and supervise the local organisations through which the short-term credit available from the intermediate credit banks could be extended to the individual farmer.

"From the individual farmer's point of view the centralisation of administrative control with the consequent simplification of procedure for securing loans will make far more effective and economical credit service than has ever been available to him in the past. The strengthening of existing credit institutions, and the establishment of additional types of permanent lending agencies, provide a complete system of financing agricultural enterprise. In particular, the new machinery for promoting production credit, giving access to the investment markets through rediscounting with the federal intermediate credit banks, is important in view of the lack of adequate commercial banking facilities in many rural areas."[1]

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[1] "First Report of the Farm Credit Administration, 1933," p. 6.

The Farm Mortgage Situation

Before we study the operations and working of the four units of the Farm Credit Administration it is necessary to understand the farm mortgage situation. The total farm debt in the United States on 1st January 1932, was estimated by the U.S. Department of Agriculture as $12,000,000,000.[1] The farm mortgage debt approximated $ 8,500,000,000 and the short-term commercial bank loans $2,000,000,000. The remaining $1,500,000,000 was merchant credit and other short-term debt. The latest detailed data on farm mortgage indebtedness is for 1st January 1930. At that time it was estimated at $9,241,390,000 or two and three-quarter times the 1910 farm mortgage debt. From 1910 to 1928 farm mortgage indebtedness was constantly increasing, but since 1928 it has declined.

Based on the 1910 debt figures as 100, the index for farm mortgage debt in 1920 was 236·6, in 1928, 285·2, and in 1930, 278·3, and on 1st January 1932, 256.[2] Most of this debt was incurred when land values had risen to high levels. The total value of farm real estate fell from $66,316,000,000 in 1920 to $30,515,000,000 in March 1933. The immediate post-War break in prices was enough for any farmer to withstand. But the serious decline in the prices of agricultural products since 1929 made his position go from bad to worse. The reason for his inability to pay his debt is obvious. When he borrowed money he was selling his crops at fairly remunerative prices. But when he had to pay the debt he was not receiving even the cost price. If he borrowed when the index number of commodities which he sold was 110, and had to pay in 1932, when the index number of these commodities had fallen to 43, the amount which he had to pay in commodities was almost three times the amount when he

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[1] The Farm Debt Problem, U.S.A. Department of Agriculture, House Document No. 9, 73rd Congress.

[2] For details and geographical distribution of debt, see Myers, W. I., *Farm Credit Administration*, p. 45. American Institute of Banking, New York, 1934.

borrowed. And some of his commodities could not be sold at any price.

When President Roosevelt came to the helm of affairs he realised that it was more important to relieve the mortgage situation than to organise a permanent institution. After three years of falling prices the farmers were threatened with bankruptcy. The number of foreclosures and defaults in payments was rapidly increasing. In order to give a breathing space to the farmers who were being crushed by this heavy debt, the Emergency Farm Mortgage Act was passed which received executive approval on 12th May 1933.

The Federal Land Banks and the Emergency Farm Mortgage Act

The Emergency Farm Mortgage Act makes the following provisions :

1. It permits the federal land banks to make loans direct to borrowers in certain areas. Previous to the enactment of this Act all federal land bank loans were made through the national farm loan associations. But owing to depression many of these associations were in financial difficulties, and were not permitted to make new loans. There was a great demand for credit by farmers which could not be provided owing to the strict rules of the Federal Farm Loan Act. This Emergency Farm Mortgage Act made it possible for those farmers, who were not served by an active farm loan association, to get loans directly from the federal land banks. However, such direct borrowers had to subscribe the stock of the federal land banks to the extent of 5 per cent. of their loans, and had to pay a rate of interest one per cent. higher than that paid by the farm loan associations.

2. The Act granted interest reduction to federal land bank borrowers for a period of five years. The Act provides that the interest rate be $4\frac{1}{2}$ per cent. until 12th July 1938. This reduced interest rate is only applicable to those loans which were in force on 12th July 1933, and also to those made up to 12th May 1935. The loans made direct to borrowers will

bear 5 per cent. interest. After 12th July 1938, the interest rate will revert to the original rates borne by the loans.

3. It allows federal land bank borrowers to postpone principal repayments on farm mortgage loans. Default in payment of their annual instalments became common during the period of depression, and it was realised that it was very hard for the farmers to continue their payments. In order to give a partial relief, this Act provided that farmers who had already borrowed money from the federal land banks, would not be required to make any payment on the principal of these loans before July, 1938, provided their loans were in good standing, and the postponement was sanctioned by the federal land bank.

4. The Act allows the federal land banks to grant extensions to worthy borrowers, and to reamortise such extensions. "The interest reduction and extension of principal payments mean a great deal to the borrower who obtained one of the first land bank loans. For example, a certain farmer in 1917 obtained a \$3,000 loan having 5 per cent. interest. He has paid 32 semi-annual instalments of \$90. The last one was \$57·75 interest and \$32·25 principal. Now for five years his payments are reduced to \$51·8, the interest at 4½ per cent. on the \$2,310·12 principal which he still owes on the loan."[1]

5. This Act also makes provisions whereby farm mortgage loans may be made for as much as 75 per cent. of the appraised value of the farm improvements and personal property mortgaged. It also makes provision for loans to be made on second mortgages provided the total value of the loans does not exceed 75 per cent. of the value of the property offered as security. Under the provisions of the Federal Farm Loan Act, loans cannot exceed 50 per cent. of the value of the property offered as security and 20 per cent. of improvements. This liberal increase up to 75 per cent. and the

[1] Address delivered by Myers, W. I., Governor, "Farmers' Credit Administration."

important provision of second mortgage had to be made in the Emergency Farm Mortgage Act in order to enable farmers to refinance their indebtedness. It should be noted here that this extension applies only to those loans that are made by the Land Bank Commissioner under the provisions of the Emergency Farm Mortgage Act from the funds placed at his disposal by the Reconstruction Finance Corporation, *i.e.*, $200,000,000.

The maximum amount of such a loan was first limited to $5,000, but has later been increased to $7,500. The total funds at the disposal of the Land Bank Commissioner for such loans are limited to $200,000,000. It has been possible to make such liberal provision in these loans as the funds are not raised from private investors, as is the case of funds for the federal bank loans, but are provided by the Federal Government through the Reconstruction Finance Corporation which is a State-owned Corporation.

Purposes of the Loans

Loans are made by the Land Bank Commissioner for the following purposes : (1) to refinance any indebtedness, secured or unsecured ; (2) to provide a working capital for farming operations ; (3) to enable a farmer to reacquire farm property lost by foreclosure.

Second Mortgage Loans

In order to help farmers to get the maximum loans authorised by law, a provision was made in the Emergency Farm Mortgage Act, that, in addition to loans borrowed from the federal land banks (which make advances up to only 50 per cent. of the value of the security) or other sources, they could raise loans from the Land Bank Commissioner on second mortgage up to 75 per cent. of the value of the property offered as security. When loans are secured by second mortgages upon farm real estate, the borrower has to obtain the agreement of the holder of the first mortgage to the following conditions : (1) that during a period of three years he will not proceed against the mortgager *and/or* the mortgaged property

for default in the payment of principal unless, in the meantime, the Commissioner consents in writing to such proceeding; and (2) that he will notify the Commissioner in writing, at his office in the district in which the property is situated, at least thirty days in advance of the institution of any proceeding against the mortgager *and/or* the mortgaged property.[1]

Refunding Indebtedness

A major number of loans obtained by farmers during 1933 was for the purposes of refinancing farm indebtedness. "More than 85 per cent. of the proceeds of loans made by the Federal Land Banks and more than 90 per cent. of the proceeds of loans made by the Land Bank Commissioner are being used for refinancing purposes."[2]

In many cases it was found impossible to refinance the farm indebtedness even with the additional loans obtained from the Land Bank Commissioner. In such cases it was found necessary to make a compromise between the debtors and creditors, and to scale down the debts; there is no compulsion in this matter, but many creditors have been only too glad to make considerable concessions in view of getting cash. Data available on 1st December 1933, indicate that approximately 17·6 per cent. of the Land Bank Commissioner's loans have involved a scaling down of debts. The average amount of the reduction of indebtedness in these cases has been about 23 per cent. of the original amounts owed.

The corresponding figures for the farmer obtaining federal land bank loans indicate voluntary reductions by creditors in approximately 81·6 per cent. of the original cases of indebtedness.[3]

In view of the gravity of the situation in October 1933, the Governor of the Farm Credit Administration sent requests

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[1] For detailed description, see "Farm Financing through Farm Credit Administration," mimeographed Circular prepared by the Farm Credit Administration of St. Louis, p. 11.

[2] "First Annual Report of the Farm Credit Administration," p. 11.

[3] "See Farm Credit Administration Report", *op. cit.*, p. 12.

to the Governors of all States to appoint State and County debt adjustment committees to work out fair debt settlement by conciliatory methods in cases where farmers were hopelessly involved. This appeal received a liberal response from the Governors of the various States, and by the end of 1933, thirty-nine out of forty-eight States appointed debt adjustment committees, and more than 2,000 counties had debt adjustment bodies working under the direction of a State committee. These committees have brought some relief to many sufferers.

Emergency Aid in Threatened Foreclosures

The ordinary process of making a mortgage long-term loan is a slow one. But the critical conditions of farmers, and the rising trend in foreclosures of properties, required that the usual process should be expedited, and some new steps should be taken to save farmers from losing their farms. Consequently, early in October 1933, the Governor of the Farm Credit Administration undertook to give special assistance to farmers who were in danger of losing their farms through foreclosures, and a small section was established in the Farm Credit Administration to deal quickly with such emergency cases. A Special Committee for this purpose was organised in each of the federal land banks.

On 22nd October 1933, President Roosevelt, in a radio speech, appealed to holders of farm mortgages to withhold foreclosures proceeding in order to give farmers an opportunity to refinance their debts by means of loans from the federal land banks and the Land Bank Commissioner. He also advised farmers, who were in danger of losing their farms, to inform the Farm Credit Administration either by letter or by telegram. Soon after this appeal, the Farm Credit Administration began to receive about 300 letters and telegrams every day, and every effort was made to take immediate steps to help such farmers, if they possessed good security to offer. In cases where they were hopelessly involved creditors were asked to scale down their debts.

Working of the Land Bank Commissioner's Loan

Shortly after passing the Emergency Farm Mortgage Act, the Land Bank Commissioner appointed an agent in each federal land bank district to handle loans. Separate offices were established by these agents to conduct their business, but they utilised the federal land banks and their valuers for valuing the farm property offered as security for loans. Separate application forms were required for these loans, and for all formal purposes it was a separate office rather than a department of the federal land banks. Farmers requiring loans from the federal land banks as well as from the Commissioner, were required to give two separate application forms, and had to pay two application fees. This led to inconvenience and duplication. In order to remedy this defect the federal land banks were made agents for the Commissioner on 25th August 1933, and for all purposes the Commissioner's office became a regular department of the federal land banks, and a combination application form for handling both loans was prepared.

Amount of Loans

On 31st December 1933, total loans amounting to \$70,812,112 were closed (*i.e.*, actually advanced). In addition to these closed loans there was a commitment for approximately \$249,208,900.[1]

Additional Funds

It soon became apparent that if the Land Bank Commissioner's loans were to be continued, additional funds must be provided. These were made available by the Federal Farm Mortgage Corporation Act, which was approved on 31st January 1934.[2] This Act authorised the Land Bank Commissioner to make loans on behalf of the Federal Farm Mortgage Corporation to the extent of \$600,000,000 to be paid in the bonds of this Corporation.

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[1] "First Report of the Farm Credit Administration", *op. cit.*, p. 11.

[2] Described in a later section.

Increase in Loans

From 12th May 1933 to 30th June 1934, the Land Bank Commissioner made 228,734 loans aggregating $380,809,901. From nineteen loans amounting to $40,100 in May 1933, the number of loans rose to 23,709, amounting to $36,665,204 during December 1933. Now that the emergency has passed away the applications for such loans are considerably less.

Terms of Loans

For the purpose of refinancing farm indebtedness loans can be made for a period not exceeding thirteen years. However, in practice, the loans for refinancing purposes are made for a considerably shorter number of years than is authorised by the Act. An analysis of the loans made by the Land Bank Commissioner during the first year of its operation has been made by the Division of Finance and Research of the Farm Credit Administration. This analysis shows that during the first year of operation 86·8 per cent. of the number and 83·6 per cent. of the amount of Commissioner's loans were made for the repayment of old debts.

Interest Rate

The Emergency Farm Mortgage Act has prescribed that the interest rate on Commissioner's loans should not exceed 5 per cent. During the first year of operation of these loans the maximum rate of interest allowed by the Act, *i.e.*, 5 per cent., was charged on all loans; later the rate was reduced.

The Federal Farm Mortgage Corporation

The Federal Farm Mortgage Corporation was established by the Federal Farm Mortgage Corporation Act, approved on 31st January 1934. It provided an additional fund of $600,000,000 for the Land Bank Commissioner's loans. But the main purpose of the establishment of this Corporation was to increase the marketability of the federal land banks' bonds.

From the very beginning of the period of depression it became increasingly difficult for the federal land banks to sell their bonds at reasonable rates of interest. The money market was uncertain and highly unfavourable for the issuing

of any bonds. The demand for long-term loans was increasing and the land banks were not able to cope with it. When in May 1933, the land banks were called upon to embark on a refinancing programme it was necessary that they should be in possession of considerable funds. It was not possible to get a response from private investors without some sort of positive assurance for the safety of thier funds. So Congress authorised the United States Treasury to guarantee the interest of $2,000,000,000 land bank bonds to be issued before 30th May 1935. The interest rate was fixed at 4 per cent. Even with the guarantee of interest it was found impossible to sell these bonds to private investors, so these bonds were pledged with the Reconstruction Finance Corporation as collateral for loans obtained from the Corporation. But this method did not prove effective, for the public confidence in any sort of bonds was shaken after the collapse of the stock boom of 1929. The only method that could attract funds from private investors was the absolute guarantee of principal as well as interest by the Federal Government. The method chosen to attract private funds was the creation of the Federal Farm Mortgage Corporation.

This Corporation issues its own bonds which are guaranteed by the Federal Government for payment of both interest and principal. This Corporation then exchanges the proceeds of its bonds for the consolidated bonds of the federal land banks. This Corporation is a financial agency for the federal land banks, and is virtually established within the Farm Credit Administration. The affairs of the Corporation are managed by a board of three directors, which consists of the Secretary of the Treasury, the Land Bank Commissioner and the Governor of the Farm Credit Administration. " The Corporation is so designed as to permit the land banks to enter the investment market with their own bonds at any time when bond market conditions are again favourable, and in this way divorce themselves from the Corporation."[1]

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[1] Myers, *op. cit.*, p. 230.

Working of the Corporation

The Corporation was organised in February 1934, and up to 31st May 1934, it had made two issues of bonds to the public. The first issue was made at 3¼ per cent. and the bonds were issued for thirty years, but the right was reserved for the Corporation to call them after ten years. The second issue was made at 3 per cent., bonds to be matured in fifteen years with the right to be called after ten years. "On 27th June 1934, $99,980,700 of the 3¼'s and $91,800,800 of the 3's were outstanding and each issue had sold substantially above par during the period since issue. Early in the year $76,900,000 of 2 per cent. one-year bonds were sold to the Treasury and the Bank for Co-operatives."[1] These bonds are exempt from income-tax.

The Federal Land Banks

There has not been any fundamental change in the structure of the federal land banks by their incorporation in the Farm Credit Administration. Some amendments have been made in the Federal Farm Loan Act, as follows: (1) Not more than one director of a federal land bank may be employed as officer or employee, except with the approval of the Land Bank Commissioner, no other directors shall receive compensation for more than thirty days in any year in addition to compensation for attending to directors' meetings. (2) Removes limitation against taking of Chattel Mortgages by the federal land banks. (3) Removes double liability in stock of borrowers in National Farm Loan Associations or engagements entered into after date of enactment of this Act. (4) Permits federal land banks to charge margin exceeding 1 per cent. in usual cases when approved by the governor. (5) Broadens eligibility of borrowers of federal land banks to include any person who is now or is shortly to become engaged in farming operations or to any person the principal part of whose income is derived from farming. (6) Authorises federal land banks to enter into engagement

[1] Myers, *op. cit.*, pp. 230–31.

with local Farm Loan Associations to share losses and gains on foreclosed farms equally between local associations and land bank. (7) Changes name of Farm Loan Commissioner to Land Bank Commissioner. The Federal Farm Loan Board was abolished. In order to increase their usefulness the maximum amount of loans was raised from $25,000 to $50,000, and the double liability of the members of the farm loan associations was abolished. Since their absorption in the Farm Credit Administration the federal land banks have widened their sphere of activity, and have made a very large number of loans. "The total volume of loans closed by the federal land banks during 1933 amounted to $151,634,111 compared with $27,569,800 the preceding year."[1] There was a very considerable increase in the number and amount of loans made during 1934, as the following table shows.

Mortgage Loans Made by the Federal Land Banks

Year as of 31st December	Mortgage Loans Outstanding. Thousands of Dollars	Year as of 31st December	Mortgage Loans Outstanding. Thousands of Dollars
1918	156,214	1927	1,155,644
1919	293,595	1928	1,194,470
1920	349,679	1929	1,197,950
1921	432,523	1930	1,188,132
1922	639,486	1931	1,163,476
1923	799,597	1932	1,116,692
1924	927,568	1933	1,232,706
1925	1,005,865	1934	1,915,791
1926	1,007,819	30th November 1935	2,065,620

The amount of loans made during 1933–34 is more than twice the amount of loans made during the previous sixteen years, *i.e.*, from 1916–32. An important department was

[1] "Report of the Farm Credit Administration", *op. cit.*, p. 7.

established in the federal land banks for the administration of Land Bank Commissioner's loans, as already discussed.

The rate of interest has been recently reduced from $4\frac{1}{2}$ to $3\frac{1}{2}$ per cent., which means a saving of seventy million dollars to farmers. Since the inception of these loans in 1917, the land banks have advanced \$3,028,174,647 to 860,828 applicants.

During the year 1934, when the United States were still suffering badly from the economic depression and the farmers could not obtain loans from ordinary resources, the land banks advanced \$730,367,140 to 190,147 applicants. During the year 1937 they advanced only \$63,091,729 to 19,147. This great decrease in the number of applicants goes to show that these banks have rendered immense service in improving the farmer's lot.

Joint-Stock Land Banks

The joint-stock land banks failed to come up to the expectations of even the most pessimistic thinkers. Their financial position was far from satisfactory, and many important joint-stock land banks failed during the period of depression. They were not able to perform the function for which they were established. Consequently the Federal Farm Mortgage Act of 1933 prohibited these banks from making any new loans and made provision for their liquidation. Some joint-stock land banks have been selling their assets to the federal land banks to hasten their liquidation.

The Federal Intermediate Credit Banks

Since the passing of the Farm Credit Administration Act the federal intermediate credit banks have become a unit of the Farm Credit Administration. Some minor amendments have been made in the Agricultural Credits Act of 1923 but there has been no fundamental change in their structure, only some increase has been made in their capital, and their activities have been enlarged so as to permit them to make loans to the Production Credit Associations which have been

organised as a separate unit in the Farm Credit Administration. They have also been permitted by the Farm Credit Administration Act of 1933 to make loans to any co-operative marketing or purchasing association "in which farmers act together in collectively processing, preparing for market, handling *and/or* marketing the farm products of any person so engaged and also any association in which farmers act together in collecting, producing, testing, grading, *and/or* processing their farm supplies; provided, however, that such associations are operated for the mutual benefit of members thereof as such producers or purchasers."

Previous to the passing of the Farm Credit Administration Act the federal intermediate credit banks were allowed to make loans directly to co-operative marketing associations only. The inclusion of purchasing associations will result in a considerable benefit to farmers.

Volume of Loans and Discounts

From the date of organisation, in 1923, to 31st July 1934, the federal intermediate credit banks extended credit to the total amount of $2,137,235,039. Of this amount $860,092,937 consisted of loans to co-operative associations and $1,277,142,102 in loans to, and discounts for, financing institutions. There has been a great increase in the business of the federal intermediate credit banks since their organisation. From a modest beginning of less than $45,000,000 in 1923 their business had increased to an impressive figure of $279,661,160 in 1933. From 1932 to 1933 alone there was an increase of $100,000,000 which is largely due to the discounts for the twelve Regional Agricultural Credit Corporations. The loans and discounts outstanding at 31st December 1937, were $207,471,502.

Production Credit Corporations

The Farm Credit Administration Act provided for the establishment of twelve Production Credit Corporations—one in each land bank district. The chief function of these corporations is to make available to farmers the credit facilities

offered by the federal intermediate credit banks. The rediscount facilities provided by the latter became less and less available to farmers owing to the failure of large numbers of commercial banks, and to the restrictions made by the surviving ones in rediscounting agricultural paper. When the federal intermediate credit banks were organised they were authorised to provide credit only indirectly. In addition to the various existing financial institutions the Act authorised the formation of Agricultural Credit Corporations by the farmers themselves, in order to borrow from the federal intermediate credit banks. The minimum capital required for these Corporations was fixed at $10,000. With the advent of depression it became increasingly difficult for farmers to raise the capital required for the establishment of such associations.

The closing of large numbers of banks in the country districts narrowed the channels of production credit and entailed considerable hardship on farmers. In order to provide facilities for farmers to borrow from the federal intermediate credit banks the Farm Credit Administration Act made provision for the establishment of twelve Production Credit Corporations. These corporations assist farmers to raise the necessary amount of capital to form an association in order to be eligible to borrow from the federal credit banks. A Central Production Credit Corporation is set up in each land bank district which provides the necessary capital to form as many associations within that district as are necessary according to the requirements of the farmers concerned.

Capital of the Corporations

Each Production Credit Corporation has an authorised capital of $7,500,000 which is subscribed by the Governor of the Farm Credit Administration. An additional fifteen million dollars capital was allocated among the twelve corporations during May and June 1934. This capital is distributed in the various counties of each district in order to

enable farmers to organise Production Credit Associations. When these associations are organised the district corporation supervises their work.

Organisation of the Production Credit Associations

With the permission of the Production Credit Corporation of the district ten or more farmers, who are eligible to borrow from the federal intermediate credit banks, may organise a Production Credit Association.

Capital of the Production Credit Associations

The initial paid-in capital for the Production Credit Association is provided by the Production Credit Corporation of the district in which the association is organised. It subscribes to class "A" stock in the association to an amount approximately equal to 20 per cent. of the estimated amount of loans to be made. This stock is non-voting. Additional capital is provided through the sale to borrowers of another kind of stock called "B" stock. As in the national farm loan associations, each borrower is required to own "B" class stock equal to $5 for every $100 borrowed. This stock carries the right to vote, but in accordance with the co-operative principles each borrower has one vote only, irrespective of the amount of stock owned by him. The Production Credit Associations perform the same functions for borrowers from the federal intermediate credit banks as the national farm loan associations perform for borrowers from the federal land banks. These associations are allowed to rediscount with or borrow from the federal intermediate credit banks up to five times the amount of their capital.

Production Credit Loans : Purposes

The Production Credit Associations are allowed to make loans to farmers for general agricultural purposes. The most common purposes are : (1) The purchase of live-stock and dairy cattle. The live-stock loans are repayable when the cattle are marketed, and dairy cattle loans are to be repaid from milk and cream cheques. (2) Crop production. These loans are made on crops in growing condition, or to be planted.

They are to be repaid from the sales of crops. (3) Pruning, spraying, picking and other normal operations in the production and marketing of fruit. (4) Securing advances on stored crops such as grain, cotton, etc. (5) Refinancing old, short-term indebtedness. These loans are made in those cases where it is proved that certain debts have been incurred for production purposes.

These associations are allowed to make loans with certain limitations for practically any purpose for which farmers need short-term credit. The minimum amount of loans is fixed at $50 and the maximum varies in various cases, according to the nature of the security and the strength of the association which is making the loan.

Management of the Production Credit Associations

Each association is managed by a board of directors of five members, who are elected from the "B" class of stockholders. This board of directors appoints a committee consisting of two members of the board of directors and a secretary, and this committee considers all applications for loans.

Rate of Interest

The associations are not allowed to charge a rate of interest higher than 3 per cent. than what they pay to the federal intermediate credit banks.

Working of the Production Credit Corporations

The first Production Credit Corporation was organised on 9th August 1933, in St. Louis, the sixth land bank district, and the last (twelfth) was organised on 19th December 1933, in Louisville—the fourth land bank district. Immediately after their organisation they set themselves to their task of organising Production Credit Associations. On 31st December 1937 there were 549 associations with a total membership of 251,190, and during the year 1937 they made 245,789 loans, totalling $286,520,483. Since their establishment they have made 834,686 loans to the amount of $660,698,633, and renewal advances of $157,461,233.

Co-operative Credit Facilities: Banks for Co-operatives

Co-operation has made great headway in the United States since the War. The Federal Government has always taken a keen interest in this development. The first step in this direction was taken in 1922 when the Capper-Volstead Act was passed. In 1923, when the Agricultural Credits Act was passed, provision was made to allow the federal intermediate credit banks to make loans to co-operative marketing associations upon the security of warehouse receipts, bills of lading, etc. In 1929, under the provisions of the Agricultural Marketing Act, the Federal Farm Board was created especially to cater for the needs of co-operative marketing associations. Owing to certain very objectionable features, this Board was dissolved in 1933, and the Farm Credit Administration was entrusted with the task of providing credit for co-operative associations.

Under the Farm Credit Administration thirteen banks —a central bank for co-operatives at Washington, and twelve regional banks—one in each of the land bank districts—have been set up to cater for the needs of co-operative associations. Their function is to provide both long-term and short-term credit to the co-operative associations on terms as reasonable as are possible. The distinguishing feature of these banks is that they are also allowed to make loans to the purchasing co-operative associations of farmers. Such associations were not eligible for loans under previous systems.

An important criticism of the now defunct Federal Farm Board was its highly centralised administration. This feature has been eliminated in the banks for co-operatives, and decentralisation has been effected by establishing a bank in each land bank district, in addition to the Central Bank in Washington.

The Central Bank for Co-operatives

The central bank for co-operatives is authorised to make direct loans to co-operative associations, to make loans to the twelve banks for co-operatives, and to rediscount the

paper of these banks. It was organised on 12th September 1933. It provides larger loans which are outside the scope of district banks, and acts as a central reservoir. The activities of the central bank cover the whole area of the United States. Every application for loans exceeding \$300,000 must be submitted to the central bank.

Capital of the Central Bank

The capital of the central bank has been fixed by the Governor of the Farm Credit Administration at \$50,000,000, the whole amount of which has been subscribed by him from the funds left from the Revolving Fund of the Federal Farm Board. "Each borrower from the central bank for co-operatives is required to own at the time the loan is made stock equal in fair book value to \$100 for each \$2,000 or fraction thereof, of the amount of the loan." This provision has been made to allow the borrowers to participate in the ownership of the bank.

Management

The management of the central bank is vested in a board of seven directors, including the Co-operative Bank Commissioner who is chairman of the board. The other six directors are appointed by the Governor of the Farm Credit Administration.

Sources of Loan Funds

The bank derives its funds for lending purposes from two sources: (1) its subscribed capital; (2) the issue of debentures. The second source has not been utilised so far. The Governor of the Farm Credit Administration has the power to increase the capital of the bank if occasion demands it.

Capital of the District Banks

Each district bank has a capital of five million dollars which has been subscribed by the Governor of the Farm Credit Administration from funds available to him from the balances of the Revolving Fund. Borrowers have to subscribe \$100, for every \$2,000 borrowed as in the case of the central bank.

Management

The management of each bank for co-operatives in each district is entrusted to the directors of the federal land bank of that district.

Sources of Loan Funds

The district banks for co-operatives have two sources for loan funds: (1) the subscribed capital, (2) loans from discounts with the central bank for co-operatives. However, no such loans or discounts have been made so far. The district banks for co-operatives are not allowed to issue debentures.

Purposes of Loans

Loans may be made to either buying or selling associations of farmers, which are based on co-operative principles. There are approximately 1,600 co-operative purchasing associations of farmers which buy seed, fertilisers, etc., but were not eligible for loans either under the Agricultural Credits Act of 1923, or the Agricultural Marketing Act of 1929. Loans to purchasing associations of farmers constitute a unique service which these banks will render to farmers.

These banks make two types of loans: (1) Working Capital Loans; (2) Facility Loans.

Working Capital Loans

These loans are made to any co-operative association of farmers for the purpose of aiding an association in paying the cost of meeting its current business expenses, and for financing operating capital indebtedness. These loans are made on the security of a first lien on the farm commodity, food products, or farm supplies on which the loan is issued. Due regard is paid to the association's financial status before the loan is made. Loans are generally made for short periods, but due consideration is given to the purpose for which the loan is taken, and the period is fixed according to the requirements of the situation.

Rate of Interest

The banks are not allowed to charge a rate of interest lower than 3 per cent. or higher than 6 per cent. In practice the interest varies from 3 to 4 per cent. according to the conditions of the money market.

Facilities Loans

These loans are made to buy, to build, to lease, or to refinance the cost of acquiring physical facilities required by co-operatives. The security required for these loans is a first mortgage, and they are made for a maximum period of twenty years. Limitations as to the rate of interest are the same as in the case of merchandising loans. In practice these loans are made for ten years or so, and a rate of interest generally equal to that on farm mortgage loans is charged.

The outstanding loans of the twelve banks at 31st December 1937, totalled £87,633,166.

Other Types of Help to Co-operatives

Lack of experienced managers and absence of business spirit have been the cause of failure of many co-operative societies. Endeavours have been made by the Co-operative Division of the Farm Credit Administration to remedy this defect by placing financial and business experts at the disposal of co-operative societies to solve their difficulties. These experts render assistance to the associations in dealing with organisation and management problems, and developing sound financial policies. Such a service was very badly needed in order to put the co-operatives on a sound footing.

Such a service is not only essential for the co-operatives, but is absolutely necessary for the banks in their own interest, in order to safeguard themselves from financial losses due to bad management and the inexperience of co-operatives. "This work is closely related to the credit functions of the banks, since such service makes borrowing co-operatives a better credit risk, and assistance to new and non-borrowing associations is a factor in determining the ultimate success of the whole co-operative movement."[1]

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[1] "First Report of the Farm Credit Administration". *op. cit.*, p. 41.

The central bank for co-operatives in Washington and the co-operative banks in the districts maintain an adequate staff of business and financial experts, whose duty it is to advise the co-operative societies in regard to their internal operating policies, stressing economy and efficiency in the handling and distribution of their goods. They also make an analysis of financial operating statements of co-operative societies with a view to developing effective budgetary control.

It is the aim of the banks for co-operatives to assist these in their business enterprises, but not completely to finance, own, and operate them. The responsibility for the success or failure of the co-operatives rests entirely on their organisers. The banks for co-operatives have provided the American farmers' co-operative associations with a sound system of permanent finance and expert advice hardly equalled in any other part of the world.

Credit Union Section

Under the Federal Credit Union Act, approved on June 26th, 1934, the Governor of the Farm Credit Administration is charged with the duty of chartering, regulating and examining Federal Credit Unions. A Credit Union Section within the Farm Credit Administration, subject to the jurisdiction and control of the Governor has been established.

A Credit Union is a co-operative thrift and loan organisation owned and operated by its members. It offers them a simple and convenient means of saving, and provides loans at a reasonable rate of interest to meet their short-term credit requirements. The capital of these unions is drawn entirely from the savings of its members. Loans are made out of these savings and out of money which the Credit Union, within certain limitations, are authorised to borrow. A Federal Credit Union may be set up only in a group of persons having a common bond of occupation or association, or being within a well-defined neighbourhood. Each member must subscribe at least one share valued at $5, which may be paid for in

instalments. He may also buy additional shares. In addition, each member is required to pay an entrance fee of 25 cents.

Loans are made only to the members, and the term of the loan may not exceed two years ; the loan must be for a provident or productive purpose. An unsecured loan may not exceed $50 in amount ; no loan may exceed $200, or ten per cent. of the capital and the surplus of the Credit Union, whichever is greater. Surplus funds should be invested in securities guaranteed by the Federal Government.

The unions are authorised to charge an entrance fee and impose fines as prescribed in their by-laws, which amount, together with 20 per cent. of each year's net earnings, must be set aside in a reserve fund against losses. Dividends must not be paid out of net earnings before the deduction for this purpose is made, and no dividend in any case higher than six per cent. should be declared.

By the end of 1936, 1,896 such unions were established. The average size of individual savings accounts has grown steadily from $11 in the first quarter of 1935 to $26 for the third quarter of 1936. The proportion of members' loans to shareholders is about 85 per cent. This indicates that the Farm Credit Administration is extending credit to their members in proportion to their resources. Losses to Credit Unions from bad loans have been very small. By September 1936, in 1,457 unions the total losses from bad loans since their organisation represented less than one-tenth of one per cent. of all loans made and at the same date the total which has been charged off to bad loans was approximately 1·2 per cent. of the total reserve for bad loans.

Critical Estimate of the Farm Credit Administration

It is too early yet to pass any judgment on the valuable work of the Farm Credit Administration. Time is the test, and it alone can tell the real worth of any such institution. As far as the general principles are concerned, the foundations of the present system look sound, and it is justified in view of the circumstances prevailing in the country. The Farm

Credit Administration came into being when the country was in the deepest depths of depression, and the morale of the agricultural industry was being destroyed through the fall of prices and wholesale foreclosures. The outlook for the farmers was very dark indeed.

The Farm Credit Administration has been working since its inauguration through the most difficult times recorded in recent history. Under these circumstances it becomes all the more difficult to judge its value as a permanent farm credit institution. During its first year it has been confronted with the difficult task of providing emergency relief. It has achieved very significant results. In the first year it provided farmers with $1,250,000,000 credit through all the agencies working under it. "The most significant achievement of the year is not that one measured by the dollar sign; rather it is the improvement in the morale of agriculture everywhere—the return of hope and beginnings of renewed confidence on the part of farm workers who saw nothing ahead but ruin fifteen months ago."[1]

Some mistakes have been made by the Farm Credit Administration, but they have been errors in execution, not in the fundamental application of the whole system to the problems presented. The Administration was faced with such a tremendous task in so short a time that it would have been impossible for even the oldest established institution to deal with it with entire satisfaction.

The increasing participation of the Federal Government in the domain of agricultural credit might be objected to by those who are advocates of private enterprise, and be considered a serious encroachment on private rights. On general grounds there is much to justify this assertion. But, taking into consideration the increasing participation of the State in so many other important fields, there seems little reason for excluding farmers from its ambit. The Farm Credit Administration "is admirable as a recovery measure in both

[1] Ellis Wellard, D. Address delivered before the Western Farm Economic Association.

its specific and general results. It benefits the farmers. It helps to thaw the frozen streams of credit and of trade."[1]

An important question arises about the future possibilities of the Farm Credit Administration. The subscription of the capital stock of various agencies working under the Farm Credit Administration, by the Government, and, in addition, the guarantee of more than $2,500 million bonds by the Federal Government may be justified in view of the crisis, the stringency of the money market, and the lack of investors' confidence in private bonds. Such a step was necessary to save the farmers from ruin in such an extraordinarily difficult period. However, one may ask, will it be possible for the Federal Government to disengage itself in years to come, and will the capital stock of those institutions be gradually subscribed by borrowers, and will eventually the Farm Credit Administration become a private corporation, or will it continue, at least for many years to come, as a State institution providing all sorts of credit?

It is highly desirable that, with the return of normal conditions, it should revert to the position of a private corporation as originally intended. If the Federal Government should continue to provide funds in one form or another, "What are going to be the demands made by the farmers and voiced by Congress? What opportunities, on the other hand, are placed in the hands of an adroit and determined administrator? Will he have the power to affect the well-being of farmers in a matter in which they will be most sensitive to influence?"[2]

It is only time that can answer these questions. In the meantime it is earnestly hoped that the Farm Credit Administration will become a permanent co-operative institution of farmers, immune from all party or political influences, and will be administered in the interest of the farmers on sound business lines. If any credit institution is to succeed, politics and charity must be divorced from it.

[1] Steel, Maitland, Sir Arthur, *New America*, p. 113.

[2] Steel, Maitland, *op. cit.*, page 114.

CHAPTER XIV

STATE BANKS FOR INDIA

Need for State Banks

IN the first chapter we emphasised the importance of banks in a modern community, and showed the inadequacy of the present banking system either to cater for the financial needs of agriculture or industry, or to provide safe facilities for savings especially for the lower classes of society. It is hardly necessary for us to emphasise the need for developing banking in this country when we find that out of 2,500 towns, joint-stock banks and their branches exist in less than 400 places. Most of these are concentrated in port towns and other big cities; with the result that in the interior of the country there are several towns of a population of over 30,000 persons where there is no joint-stock bank or any branch of a joint-stock bank. And the condition of many joint-stock banks that do exist is far from satisfactory, and they fail to inspire any confidence in the average investor. We have pointed out in the first chapter that it would be an ideal thing to develop a sound system of banking without the aid of the Government. But when we face the practical realities we find that our ideal cannot be realised in the immediate future. Here we cannot refrain from quoting two Urdu verses of the famous poet Ghalib which very tersely sum up the situation:

آہ کو چاہیے اک عمر اثر ہونے تک   کون جیتا ہے تری زلف کے سر ہونے تک
ہم نے مانا کہ تغافل نہ کروگے لیکن   خاک ہو جائیں گے ہم تم کو خبر ہونے تک

"It will take an age for my sighs to have effect; who will survive till he is able to win you?"

"I admit that you will not remain indifferent, but I shall be buried in the earth before the news reaches you."

Moreover, the experience of other countries does not justify the hope that this ideal would be achieved. We

find that in a country like Australia which has a very strong commercial banking system it has been found necessary to open State Banks.

As far as the financial needs of agriculture are concerned we find that in almost all countries of the world the State does provide credit to the farmers in one form or another. Even in a highly conservative, individualistic, and well-developed country like England, it has been found necessary to associate the help of the State in the provision of long-term credit to the farmers.

Under the circumstances we are forced to the conclusion that the existing banking system of India has failed to cater for persons of small and moderate means and to provide for the needs of the farmers and industrialists. In order to fulfil this grave need it is essential that some steps should be taken by the State to do what is necessary. In our opinion the best step that the State can take is to establish a State Bank at the first possible opportunity.

Objections against State Banks

The idea of starting State Banks in India may be objected to on three grounds. Firstly, that it is against the sound principles of finance, and the interference of the State cannot be tolerated in this sphere. Secondly, that it involves a departure from the well-tried and accepted principles of banking. And finally, that it is likely to bring a disaster on the country if the finances of the government are pledged in guaranteeing the deposits in the State Banks and debentures issued by them. Now we shall proceed to examine each of these objections carefully and see what validity we find in them.

Interference of State in Banking

At first sight the argument of State interference in the sphere of banking seems forceful. We know the mess which the State makes in meddling with econominc matters.[1] It

[1] This has been fully discussed in my book, *The State and Economic Life*, New Book Co., Bombay.

is very desirable that ordinarily the State should interfere as little as possible.

But the maxim that "every bad thing has some good points", obviously applies to the policy of State interference also. Fortunately the bad policy of State intervention when applied in certain spheres of the field of banking does yield some good results. As a matter of fact banking is one of the very few spheres where in certain matters State interference is not only desirable but essential. To prove this contention we have the authority of the very man who revolted against the interference of State and advocated the doctrine of *laissez faire*. Adam Smith himself remarks, when dealing with the subject of banking, "these exertions of the natural liberty of a few individuals, which might endanger the security of the whole society are, and ought to be, restrained by the laws of all governments of the most free, as well as of the most despotical."[1]

Economists are notorious for their differences, but banking fortunately is the only field where an assembly of economists, considering the matter from a purely theoretical point of view would vote with a preponderating majority that interference by the State in this matter is justified in some form or the other. Of all the enterprises banking perhaps is the most suitable for the State to undertake. During my visit to Europe in the summer of 1938, I consulted several prominent economists of the *Laissez faire* school and they all agreed that on theoretical grounds alone there could be no objection in the undertaking of certain banking functions by the State, though some were reluctant to recommend such a measure on political grounds.

How to limit the dangers arising out of political control we shall discuss in a section on the Management of State Banks. Anyway this much is clear that the establishment of a State Bank by the Government, in itself, is not against the canons of sound finance and orthodox economics.

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[1] Quoted in *Political Economy in England*, by L. L. Price, p. 11.

Departure from Well-tried Principles of Banking

One may pertinently ask what are the well-tried and accepted principles of Banking? A further question may be asked as to where these principles have been well tried and who has accepted them? The answers to these questions which one is likely to receive from an ordinary English banker would be, 'well, at home in England, the home of banking and financial houses'. But one may be permitted to remark that England is not the whole world. Radical departure has been made from the English system in other countries of the world without seriously impairing the credit structure of their country. Leaving the continental practices aside, we have only to look to the off-spring of the English people and we have described at some considerable length the State banking systems of the British Dominions and the United States of America in the previous pages of this treatise. An English banker would have been perfectly justified if he had made these remarks, say, ten years ago. Now that in England itself an elaborate system of finance of industries and of agriculture by semi-government institutions has been introduced, there can be hardly a justification, in opposing the establishing of similar institutes in other countries which are far less developed than England. There is nothing new or novel in State Banks, as some people would make out. This myth we have fully exploded in the previous pages of this book.

Effect on Government Finances

The last and perhaps the strongest weapon which has been used by the opponents of the State Banks is to frighten governments who contemplate the establishing of such banks by propagating the idea that State Banks are very dangerous play-things. It is said that immediately a State touched them it would burn its fingers. It would spell financial disaster. The credit of the governments would be seriously curtailed and it would become increasingly difficult for them to borrow for their other needs.

I have seriously considered these objections and have come to the conclusion that either the exponents of these objections are utterly ignorant or they are hypocrites of the first degree. The first conclusion is hard to believe, because they ought to know that State Banks have worked fairly well in the English-speaking part of the world. Especially, they could not ignore the State Savings Bank of Victoria which is almost a century old. The second conclusion seems more obvious.

The bogey that has been raised that State Banks are likely to spell disaster to the finances of the government and are likely to put them to heavy losses and curtail their credit for borrowing, must have become meaningless to the readers of this book who have seen that most of these banks instead of spelling disaster on the governments are bringing them money by earning fair profits.

Combining of Deposit Banking with Investment Banking

There is a school of thought both in this country and abroad, which though it does not seriously object to the provision of saving facilities by the State or to the lending of money to agriculturists for long-term requirements, objects very strongly to the combining of deposit with investment banking. As this school of thought carries considerable prestige, a good deal of weight attaches to their objections. Therefore, we shall proceed to examine these objections.

Objections against the Combining of Deposit with Investment Banking

The following objections have been raised against the combining of deposit with investment banking. The combining of two distinctly different functions in a single institution which receives deposits for short periods, and lends money for long periods, is against the sound principles of banking. In this connection Professor Taussig observes "the combination of different operations by a single institution, in close connection with deposit banking brings dangers. The due balancing of demand liabilities with

assets is not easy to maintain where other operations are undertaken which look to permanent investment. The danger of a commercial crisis is more imminent and more serious when the deposits which are payable on demand and are interlocked with the effective circulating medium are closely connected with new ventures that tie up resources for a long time and necessarily entail large risks."[1] These objections have been raised from the point of view of the depositors and are perfectly valid. Objections have been also raised against the system of advancing long-term loans by deposit banks from the borrower's point of view also. "The convenience of the farmer (or industrialist) necessitates that loans be advanced for sufficiently long periods to enable them to be repaid from the additional income which the loan makes possible. The renewals of loans may involve additional charges, in the way of value assessments, commission and legal fees which should be avoided, while renewal may be enforced at high rates at time of stringency or when the urgency of the farmer's need places him in an inferior bargaining position. The way is then open for exploitation." [2]

These objections are also perfectly valid.

The reader may now pertinently ask, if both these sets of objection are perfectly valid, why in the face of such arguments we are suggesting the establishing of a State Bank which is to undertake both deposit and investment banking.

These objections have been raised on the ground that in ordinary commercial banks funds are raised by means of deposits, which are either withdrawable on demand or in the case of fixed deposits after a certain period, which is generally a year. If any bank which has short period liabilities lends for long periods it is certainly likely to come to grief. This system also does not suit the borrowers who want loans for sufficiently long periods.

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[1] Taussig, F. W., *Principles of Economics*, Vol. I, Third Edition, p. 345.

[2] Belshaw, H., *The Provision of Credit with Special Reference to Agriculture*, pp. 98–99.

But all these objections lose their force when we say that our State Bank is to have two separate and distinct departments; the general banking department, and the credit foncier department. Funds which are deposited in the general banking department are only to be lent for short periods. As a matter of fact for all practical purposes this department will function quite separately, on almost the same lines as an ordinary commercial bank, while the credit foncier department which is to be responsible for providing loans for long periods, is also to function separately. It will raise its funds by the issuing of debentures which are to run for a period of 25 to 30 years. Similarly, it will make loans for periods long enough to meet the needs of the borrowers. These loans are to be provided from the funds raised by the issuing of long-term debentures, and are to be repaid in small instalments from the proceeds realised by the investment of these loans. It is clear from the above that funds of both these departments will be raised from separate resources and their accounts must be kept separate. If this is done it will virtually amount to the fact that we have two distinct institutions to perform two distinct functions. If this is so, it may be asked why not start two separate institutions to avoid all possible criticism? It has been suggested that it will be more desirable if these two separate functions are entrusted to two separate institutions. We should have a separate State Bank for providing commercial banking facilities and a separate institution to provide long-term credit to agriculture and industry and loans for houses. There could be no objection to the starting of two separate institutions except that of heavy expense which would be involved in running duplicate institutions. In a poor country like India this is of considerable importance. The objection seems merely formal. I am of the opinion that the time has definitely come when we must learn to care more for the spirit of things than for their forms. There seems no earthly reason why in order to satisfy the whim of certain critics, we must undergo a heavy expense and duplicate our management. Moreover, from the point

of view of investors and borrowers (a person can be one and both at the same time) it would be more convenient if they were to deal with a single institution. But the most important consideration which has definitely compelled me to recommend a single institution is that it will have the services of a competent staff which will be expert on matters of finance and banking, while if there is a separate purely credit institution providing loans only, it is difficult to create that banking atmosphere which is the inherent characteristic of a deposit institution, carrying with it special conservatism and caution. It is the experience of many Empire countries that enough care and caution are not exercised in granting loans by those institutions which purely provide credit. In India unfortunately our experience is the same. As such institutions have not very varied work, they can ill-afford to pay for the services of competent bankers to take charge. If on the contrary a single institution both with lending and banking departments is started, on the strength of this joint work it could easily pay for the services of competent bankers who would have enough work to occupy themselves and justify the high salaries which would have to be paid to them. As such a staff would consist of trained bankers, they are likely to exercise due caution and conservatism in making advances; and owing to this sound management, our State Bank is likely to inspire greater confidence. From the point of view of the State it is also essential that the State Banks should be run by a competent staff which, by acting on sound principles of banking and finance, should minimise losses, because the State has to guarantee their liabilities. It is in the interest of the State that it should see that these banks are well managed.

Under the circumstances we feel no hesitation in recommending the establishing of State Banks which should provide facilities for ordinary commercial banking, cater for the long-term requirements of agriculture and industry, and also provide credit to those who want to purchase or build residential houses.

All-India State Bank or a Provincial State Bank

Now that we have examined the arguments that have been advanced against the establishing of a State Bank, and have shown that the scheme of a State Bank is neither novel nor unsound, we have to answer another very important question, which is whether our State Bank is to be an All-India Bank, to be started by the Federal Government, or a Provincial Bank to be started by the Provincial Governments? We shall proceed to examine the advantages and disadvantages of both these types and then shall be able to answer the question which we have just asked ourselves.

Advantages of an All-India State Bank

The following are the main advantages of an All-India State Bank. A Federal State Bank is bound to inspire greater confidence than a Provincial State Bank, due to the fact that it is likely to have a bigger and stronger organisation. It will carry with it the prestige and the guarantee of the Federal Government which is likely to inspire greater confidence in the investors. On the strength of the Federal Government it can borrow funds at cheaper rates and can consequently lend them more cheaply too. Thus on the one hand it will benefit the borrower and on the other hand by providing greater safety it will attract depositors and investors. It can help to equalise the rates of borrowing and lending in different parts of the country and thus help those parts of the country where there is lack of funds and where rates of interest are high; while its services will also be useful to those parts where the funds are in surplus and investors get a low return. It will also have better conditions for granting loans, as it will have a wider field of operations and there will be less localisation of risks. It can render better service to the community and can make the economic life more stable. It can engage the services of specialists and can achieve the economies gained by centralization. Also a Federal State Bank can adopt a uniform policy of lending, can better standardise the farmer's security and is less likely to be influenced by provincial politics.

Disadvantages of a Federal State Bank

Against the advantages of a Federal State Bank, it has been urged that there are several disadvantages. In the first place, all the disadvantages of centralization have been urged against the Federal State Bank. Secondly, it has been pointed out that India is such a vast country and the local conditions are so conspicuously different that an All-India institution is likely to be of little use. It cannot adopt uniform policies of lending owing to the diversity of local conditions. And if it adopts different policies of lending in different provinces it is likely to create a good deal of suspicion and charges of favouritism may be laid against it. And finally, and this is most important, that if the Federal Government does not take any interest in the matter, why should the provinces not go ahead and develop their resources? There are several other disadvantages which are more political than economic.

Summing up of the Discussion

To sum up the discussion, we find that the advantages of a Federal State Bank outweigh its disadvantages. It is not necessary that a Federal State Bank must be of a unitary type, or if it has branches their areas must necessarily be confined to the provincial areas. To avoid provincial jealousies it can divide the country into various regions quite separate and distinct from the provincial areas, as is the case in the Farm Credit Administration in the United States. The Federal Land Banks were established in the United States in 1916, and the area of this Union of 48 States was divided into 12 regions.

The evils of centralization can also be lessened by appointing regional boards and their policies could be co-ordinated by a federal board. It is highly desirable that the provinces should follow a uniform policy (with due regard to local variations) and that there should be a central body to co-ordinate their activities. If widely divergent policies are followed by different provinces it is likely to lead to confusion and discontent in the less favoured provinces. An objection is also raised against the Australian State Banks that there is

no central co-ordination of their policy. The Committee on Rural Credits in Australia which reported in 1927 observed that, " in many ways it would be advantageous if the procedure as regards long-term agricultural credit in the various States was as nearly identical as possible, and the efficiency of that system would be further promoted if a standard form of agricultural mortgage and standard bonds or debentures could be devised for the whole of the Commonwealth. To do this would probably involve some measure of co-ordination or central control. We suggest that the Commonwealth Government might consider, in consultation with the State Governments, the advisability of constituting some general governing board, similar to the Federal Farm Loan Board in the United States, empowered to make rules for the granting of mortgages and the issue of debentures, and otherwise to supervise the work of the lending institutions."

It is clear from the above quotation that a definite need of co-ordination has been felt in Australia also. In India where a beginning has still to be made, it is highly desirable that from the very outset all possible efforts should be made to adopt a comprehensive scheme. The theoretical advantages of a Federal State Bank are overwhelming but there are special practical limitations which we cannot and must not ignore.

Practical Limitations

All over the world federating units are frightfully jealous of the powers of the federal authority. The discussions that were held at the meetings of the Round Table Conferences, and the bitter controversies that followed regarding the provincial and federal sources of taxation and revenue clearly indicate the great importance that the new autonomous provinces attach to their rights. It is highly improbable that provincial governments would be prepared to let the federal authorities encroach on their rights. Again the provinces will be very reluctant to rely on the sweet will of the federal authority to await the development of their resources over which in that case they would have little control.

Moreover, it can be urged by the provincial governments that a Federal State Bank will not be able fully to meet the credit needs of the provinces, especially of the farmers, not only due to the diversity of local conditions but also due to different systems of land rights and ownership. The plea of co-ordination by a federal board also savours of political odour and is likely to be felt more so by the sensitive noses of "province conscious politicians". However one may decry such sensitiveness, we cannot very well afford to ignore it.

Under the circumstances it seems expedient to recommend the establishing of State Banks on a provincial basis although from the purely economic and theoretical point of view it would have been desirable to establish a Federal State Bank.

Moreover on closer examination, we find that the disadvantages of a provincial state bank are not so great as they seem to be. Provinces in India are big enough to have a separate bank, and can also achieve the economies which a central institution can achieve. They can also employ experts. Risks of lending could also be diversified and efforts could be made to equalise the rates of lendings within a province. As regards the co-ordination of the activities of various Provincial State Banks, it is desirable to achieve this end with the help of an agency which has no political significance. Instead of a federal board it is desirable to look to some other agency to do this important work. Fortunately we have an agency in the country whose guidance could be sought without any consciousness of political subordination. That agency is the Reserve Bank of India and especially its Agricultural Credit Department, which can act as a clearing, co-ordinating, and consulting agency.

After carefully considering the whole matter I am of the opinion that under the existing circumstances of the country it is not a matter of immediate practical politics to start a Federal State Bank, and we shall be well advised if we concentrate our activities on establishing Provincial State Banks. In the pages that are to follow, by a State Bank we shall mean a Provincial State Bank.

Type of State Bank

What type of State Bank should we have?

In the first chapter we emphasised the importance of banks in the modern community. In the chapters that followed we showed the working of various types of State Banks in different parts of the British Empire and the United States of America, in order to give an idea to the reader that the scheme which we are going to suggest is neither novel, radical nor unorthodox.

In the present chapter we have examined some of the theoretical arguments that have been advanced against the opening of State Banks and have shown that even from the theoretical point of view the idea of the State Bank is a sound one, and that no harm will be done if both banking facilities and long-term loans are provided by one and the same institution, provided the deposits are not utilised for financing long-term loans. Now that we have decided that a State Bank should be opened, a reader will naturally ask, since he has read about various types of State Banks in the preceding pages of this treatise, which type are we recommending for India, and what will be the objects of our State Bank. After careful examination of the various types of institutions the activities of which we have described in the previous pages, the writer is of the opinion that it will serve the best purposes of our country if a bank similar in essentials to that of the State Bank of South Australia is established in India.

Objects of the State Bank

The objects of our State Bank will be to provide facilities for commercial banking, the provision of credit to agriculture and industry, and loans for housing. In order to achieve these objects the bank will be divided into two departments, *viz.*, the General Banking Department and the Credit Foncier Department. Facilities for commercial banking will be provided in the former department and facilities for agricultural credit, industrial finance and loans for housing will be provided in the latter department. The funds of both these

departments should be kept separate, and separate balance-sheets and profit and loss accounts should be published for each department. The funds of the banking department should not be utilised in the credit foncier department. However, there could be no objection if the banking department was permitted to utilise its spare funds by purchasing the debentures of the credit foncier department to a limited extent.

We shall set forth below the powers which both these departments should exercise.

Powers of the General Banking Department

It shall have the power to carry on the general business of banking more specially :—

(1) To open and manage current, deposit, and savings accounts.

(2) To discount, buy, sell and deal in bills of exchange, hundies, etc., arising out of *bona fide* commercial transactions.

(3) To lend money on the security of—

- (i) agricultural produce or manufactured goods placed under the custody of the bank ;
- (ii) government bonds ;
- (iii) shares and debentures of reliable companies ;
- (iv) gold ornaments ;
- (v) to make advances by way of overdrafts to approved persons and companies.

It is essential that in this business special care should be exercised.

(4) To issue bills and drafts and grant letters of credit.

(5) To borrow money.

(6) To buy, sell, and deal in securities issued or guaranteed by a Provincial or the Federal Government.

(7) To receive money, securities, and valuables for safe custody, or as security for existing debts to the bank.

(8) To purchase, take on lease or in exchange, hire or otherwise any immovable or movable property,

and any rights or privileges which the Bank may think necessary or convenient with reference to any of the objects for which the Bank is established and the acquisition of which may seem necessary to facilitate the realisation of any securities held by the Bank.

It is necessary that securities realised in this way should be disposed of as soon as possible.

(9) To open branches in the provinces and agencies in other parts of the country, and to appoint agents.

(10) To act as agents to other banks outside the province.

(11) To take, or concur in taking all such steps or proceedings as may seem best calculated to uphold and support the credit of the bank and to obtain or justify public confidence and to avert or minimise financial disturbances which might affect the bank.

(12) To do all things incidental or conducive to the attainment of the above objects or the exercise of the above powers.

Powers of the Credit Foncier Department

It shall have the powers :—

(1) To grant loans for the purchase of agricultural lands.

(2) To grant loans for making permanent improvements to the land and the incurring of capital expenditure.

(3) To liquidate old debts already incurred for any *productive* purpose only.

(4) To make advances to industries for their long-term requirements, *viz.*, to build factories and warehouses or to purchase expensive machinery.

(5) To make advances for the building of residential houses to persons of moderate means.

(6) To grant loans for any purpose incidental, accessary or ancillary to any of the above purposes.

Above we have given a bare outline of the powers of the two departments of our bank. But this is not enough. We must give some account, however brief it may be, as to how

these departments must be worked. However, before taking up this important aspect some light must be thrown on some other important aspects of our Bank, *viz.*, its capital, management, etc.

Capital of the Bank

We have suggested above that a State Bank should be established in provinces to provide commercial banking facilities, long-term loans to agriculture and industry and loans for houses. It will be at once remarked that it is not a matter of practical politics. Such a bank would require a huge amount of capital, which considering the present depleted resources of provincial finance it is not easy for the provincial Government to provide. The objection apparently seems weighty enough. If such a bank is really to require a tremendous amount of capital, as the extensive nature of its business indicates, it is quite likely that it will be beyond the means of many provinces to embark on such an expensive enterprise. But it may be asked, does such a bank really require such a colossal amount of capital as it is ordinarily imagined. Before answering this question let us look at the other State Banks in the Empire and see the amount of their capital. Looking first at the balance-sheet of the State Bank of Victoria we are rather surprised that in the balance-sheet of its savings department under the heading of liabilities we find no mention of any capital, although it has a liability of over £63 million to its depositors. In the balance-sheet of the credit foncier department we also do not find any liability for capital although it has liabilities of over £22 million in regard to its debentures. In plain English it means that the bank has no capital in the ordinary sense of the word although it is doing such an extensive business. It owes over £63 million to its depositors in the savings department and over £22 million in the credit foncier department. It seems rather startling and incredible to believe that a bank with obligations of £85 million should have no capital. A reader would certainly like some light to be thrown on the problem

before he is prepared to believe it. Before showing how it is possible for such a bank to work without any subscribed capital, we should like to ask what are the functions of subscribed capital. It may be simply answered that if a bank has no subscribed capital, how is it to start its operations? It may be admitted that some capital is absolutely necessary to start its operations, but once the bank has started working and has succeeded in inspiring confidence, it attracts funds by way of deposits. It can accumulate reserves from profits and thus carry on. The ratio of subscribed capital to the total working capital in the leading commercial banks of the world is very small indeed, and if they care to pay off their subscribers it will not seriously affect their financial position. In order to illustrate this point we give below the ratio of working capital to the total paid-up capital of the "big five" in England.

The following statement shows the financial position of the 'big five' as regards their paid-up capital, reserve fund, and total deposits in July 1938.

Name of the Bank	000's omitted		
	Paid-up Capital	Reserve Fund	Total Deposits
	£	£	£
Barclays	15,858	10,750	432,582
Lloyds	15,810	9,500	395,548
Midland	15,159	12,411	495,313
National Provincial ..	9,479	8,500	319,979
Westminster ..	9,320	9,320	358,090

The ratio of total deposits to paid-up capital is approximately thirty-one to one per cent. The main strength of these banks is their reserve fund which is over 70 per cent. of the total paid-up capital which means that if these banks choose to pay off their shareholders they can at once pay

about three-fourths of their contribution and if for some years no dividend is declared the reserve fund will swell to such a figure that they can easily pay off the entire contribution of their shareholders.

The above statement is further corroborated by the financial position of ten London Clearing Banks.

Current deposit and other accounts of ten London Clearing Banks in July 1938 were £2,308,862,000 while their paid-up capital was only £78,197,000 which means that the ratio of paid-up capital was approximately one to thirty. By studying the above figures it must have become clear to a reader that subscribed capital does not play an important part in the developed stages of modern commercial banks, and thus it must have become easier for him to understand how the State Savings Bank of Victoria has been able to work without any subscribed capital. When this bank was established, some funds were provided by the Victorian Government in order to enable the Bank to carry on its business. These funds were needed to start the business. In a sense it can be said that its capital was subscribed by the Victorian Government. Depositors when going to a bank look for security and want to know if a bank to which they entrust their funds is safe, and one of the criterion of safety to ordinary investors is to see the capital and reserves of such a bank. The question of safety of deposits did not arise in the State Savings Bank of Victoria as its deposits were guaranteed by the Government. As the bank got more and more business it repaid the entire capital that was lent to it by the Victorian Government and in addition to that, it has accumulated a reserve of £3¼ million. The policy of the bank is pretty sound and it keeps 33 per cent. of its liabilities in liquid form. To an Indian reader the whole matter will become very easy to understand when we tell him that the post office savings banks which have a deposit liability of Rs. 75 crores have no subscribed capital. Under the circumstances it can be very well realised that it may not be absolutely necessary to have any subscribed

capital in the Savings Departments of a State Bank. But it may tax one's brain to understand how on earth a bank is to provide long-term credit without a tremendous amount of share capital. We admit the necessity of a tremendous amount of capital but it may be pointed out that in order to finance its long-term loans it is not necessary that the fund should be raised by subscriptions of shares alone. The more proper method is to raise funds by the issue of debentures and that is what has been done by most State Banks in Australia and elsewhere. The same system is recommended for India, the details of which are discussed elsewhere.

Capital of the State Bank of South Australia

In other State Banks of Australia which are doing purely savings or long-term lending business there is no fixed subscribed capital.

It is only the State Bank of South Australia that has a subscribed capital of £2 million, the entire amount of which has been subscribed by the South Australian Government. It was necessary to provide a capital of £2 million in the General Banking Department because in contrast to other State Banks of Australia it is doing ordinary commercial banking business which needs more funds in the beginning than a purely State Savings Bank.

As our State Bank will be more or less akin to the State Bank of South Australia, it will be necessary to provide some capital for our bank, but it need not be necessarily very large.

Proposed Capital of our State Bank

Giving due consideration to the resources of the Provinces, and the immediate needs of our proposed bank, we suggest that it should be started with a capital of 25 to 50 lakhs of rupees, the entire amount of which should be provided by the Provincial Government. This amount will be necessary to carry on the business of the General Banking Department. To provide funds for the needs of the Credit Foncier Department it is not necessary to have any capital subscribed by the Government. In order to raise funds for the needs of this department, the bank should be authorised to issue

debentures in the first stage to the extent of one crore of rupees. The interest and capital of such debentures should be guaranteed by the Government. The maximum limit of debentures could be raised later if the Government is satisfied with the working of the Bank.

Management of the State Bank

Now we have come to the most important aspect of our work. In any institution sound management is absolutely essential to its success. But it is more so in the case of a banking institution which has to handle money, especially so in the case of a State Bank which has not only to deal with money but has also a grave responsibility to the State whose credit depends on its success, for the State will have to guarantee its deposits and debentures. On the sound system of management will depend the success of our Bank. The nature of such a bank requires that its management should be such that it should have the best possible trained staff and men of dignity and integrity to guide its policies. It is also desirable that the management of a banking institution should not be entrusted to those men who are not trained bankers of considerable practical experience. It is also essential that we should point out with the greatest possible stress that we can command that under no circumstances whatsoever should the management of such a bank be entrusted to civil servants. However capable a civil servant may be, he is not suited to manage a financial institution because he is not trained for such a work. The sad experience that we have had of the management of the Civil Servants in some Provinces (who are not trained bankers) who were given charge of the co-operative movement in spite of persistent warnings by various committees, should not be lost sight of. Banking is a very delicate type of business and requires specially trained persons. Therefore we recommend that as far as the internal management of the bank is concerned, it should be entrusted to a person who has special training in the field of banking, finance and economics. The other staff of the bank should also mainly consist of persons who

have qualified for the Diploma of the Institute of Bankers. A special staff will be necessary for the valuation of agricultural lands and assessment of industrial property. For these functions only those people should be appointed who have had considerable practical experience in their respective fields. This is very important, because the success of the credit foncier department will mainly depend on the sound valuation of properties on the security of which loans have to be made.

So far what we have said about the management applies to the internal management of the bank and there will be very few persons who will disagree with us. But even more important than the internal management is the determining of the policy of the bank, which of course in its broader aspects will be laid down by the Provincial Legislature. But to interpret this policy and to formulate a definite scheme of work it will be necessary to have the services of men of wider experience and knowledge.

A question of considerable importance which we have to decide now is whether our banks should be run purely as a government department or as a public utility corporation.

Public Utility Corporation

Since the Great War there has been an increasing demand on the governments to embark on various types of enterprises which before the War were ordinarily entrusted to private persons. As a matter of fact in most democratic countries the movement towards State socialism has been gaining rapid momentum. It is not necessary for us here to point out the inability and inefficiency of the State to carry on the active management of the businesses. This has been realised by those States who have embarked on a programme of State intervention in economic life. They definitely seem to know the limitations of the State to manage business enterprises and especially the dangers of political control that are likely to arise if the management of such institutions is to be directed by political parties and like other government departments, the management and the policy have to

change with the rise and fall of political parties. The Anglo-Saxon mind which has a special gift for compromises has fortunately made a very healthy compromise between State management and rugged individualism. They have evolved a new institution which has been christened a Public Utility Corporation. They have realised that there are certain types of businesses which cannot freely be left in the hands of individuals. At the same time they have also realised that if such businesses are to be run smoothly and efficiently it is also necessary that they should not be run as purely government departments. In order to achieve this end, the State either directly or indirectly provides the funds that are necessary for carrying on such a business but does not itself undertake its management. On the contrary, it lays down a policy in its broad outlines and entrusts the work of management to a body of competent experts who possess the requisite experience, and leaves this body to manage such businesses. The State does not interfere in its day-to-day management and the political parties ordinarily have no right to intervene in its management. As a result we find that although the capital of such corporations is provided by the State or where the capital belongs to private persons they are assured of a certain amount of income, the management of such institutions is left to business men of experience and ability who manage it not in the interest of individuals but in the interest of the community as a whole.

Therefore we recommend that our State Bank should be managed not as an ordinary government department but that its management should be entrusted to a body of competent men, which body should be called the Board of the State Bank. It is necessary that these men should not be members of any political organisation so as to tinge the bank with its flavour. They should be either business men or public men of experience. It is also necessary here to emphasise that if such an institution is to inspire confidence, it is necessary that its management should be in the hands of such persons whose character and integrity are beyond reproach.

The status of a member of the State Bank Board should be one of the highest and the salaries of such members in no case should be less than the salaries of the permanent judges of the High Court. There would be certain critics who would object to such an expensive management but they must realise that to get the services of men who are not likely to be influenced by mean considerations and are able to despise even the highest possible temptation, should be paid the highest possible remuneration that can be paid to any officer in the State. The very difficult nature of their work also requires this. There is one more point which we should like to mention in this connection and that is about the tenure of this Board. It is necessary that the tenure of the members of this Board should be as long as possible because if changes have to be made too frequently it might lead to many unpleasant consequences and prevent the management from forming a persistent long view policy. Moreover, if the members of this Board are appointed for short periods and are eligible for reappointment after a number of years, they may have to listen to the demands of those in whose hands the reappointment lies; and for this reason there is a likelihood of a considerable danger of pressure from without to persuade the management to follow a policy which the management may not think sound. They may be compelled to do so in their own interest. Consequently, we recommend that members of our State Bank Board should be appointed for life and should not be removed without the approval of a three-fourths majority of the Provincial Assembly.

Working of the General Banking Department

No amount of rigidity in the constitution or safeguards provided in it can save an institution from disaster if it is not properly worked. The proverb that "you can take a horse to the water but cannot make him drink" applies to any institution also. The success or failure of any institution does not solely depend on its good frame-work (though it helps a good deal) but on the way in which such an institution is to be worked. We have already emphasised the

importance of a sound and impartial management. The success of our State Bank will depend on triple alliance, *viz.*, the sound management, wise and cautious policy, and the sound conventions adopted by it. The State Savings Bank of Victoria whose success we have already mentioned in Chapter II, was fortunate enough to have a very sound management and the men who manage it were associated with the bank for a considerable period. We in India are almost specialists in providing fool-proof constitutions, but unfortunately we are very slow in setting up wise conventions. However it must be realised that conventions are not established in a day. They owe much to environment, surroundings, upbringing and inherited tradition. Giving due allowance to all these factors we find that management in most of our institutions is very bureaucratic. Bureaucracy in itself is not so bad, but when it is combined with the idea of rule it becomes a tyranny of the first magnitude. In the opinion of the writer the time has come when a vast campaign should be carried out to sow the seeds of service by rooting out the idea of "rule" in the heads of the services in India. It must not be understood that we are blackmailing the services, far from it. Scores of examples could be enumerated in the most bureaucratic services in India of men who have worked like missionaries and have set a very high standard of service unparalleled in any country of the world. India is much indebted to such men. But on the whole it can be said without any fear of contradiction and offending any individual that the spirit of "service" is altogether lacking in Indian services. There may be some justification of such stiffness in executive services, but in the commercial services there can be no defence for such stiffness. It may be objected that the need of preaching a sermon on service is altogether out of place in a treatise on State Banks. But I would like to emphasise with the greatest possible force at my command the necessity of sound management, and the spirit of service in those who manage such an institution. Those who have had the sad experience of going to any bank in India to

encash a cheque and the hardship and privations that they must have suffered will at once agree to the relevance of these lines. In India even a petty bank clerk at the counter thinks himself the biggest despot in the world. He will let a client wait for an hour if there is no *chaprasi* available to carry the cheque to the accountant rather than himself condescend to take the cheque even when he is busy doing nothing. These men must be taught the golden business slogan that "the customer is always right". In working the General Banking Department we should like to mention a few general points.

Appearance of the Bank

The first of these is relative to the appearance of the Bank. In India people "cannot think of a bank except as a lofty and spacious hall with shining counters and large army of clerks and peons". But these people must not forget "that the security of a bank lies in none of these things, but in the vigorous cutting down of charges, in honesty, integrity and efficiency of management. In a vain attempt to win the confidence of the public, expenses for spectacular shows are undertaken which are not at all warranted by the volume of business." In India we have been slavishly imitating the Western banks. It must be remembered that India is a poor country and cannot well afford to indulge in such luxuries. For the success of banking in India it is absolutely necessary that all unnecessary expenditure be ruthlessly curtailed and the maxim of this country "plain living and high thinking", must be strictly observed. All the paraphernalia which is not absolutely necessary must be discarded. For instance, we find no use for tables and chairs for the use of clerks in banks. They are not used to them. They feel uncomfortable. In their private life no chairs or tables exist. From childhood they are accustomed to sit on *durries* and mats. Why not replace chairs and tables by less expensive *durries* and mats, gaining economy for the bank and comfort for the employees of the bank. I visited several branches of the Bombay Provincial Co-operative Bank in the

mofussils and found the proverbial simplicity of indigenous bankers and the modern efficiency, combined in these branches. Why should we insist on giving chairs and tables to bank clerks when they do not feel comfortable, and at the same time, increase the expense? Why should we deliberately impair the efficiency of the staff and do so by spending more money?

Use of Vernacular Literature

Another thing which we fail to understand is why the business of even ordinary commercial banks should be done in English? Why this unnecessary expense should be incurred when doing all this business in the vernacular is far less expensive? What is the percentage of the bank clients who understand English *only* and do not understand any of the provincial vernaculars? In order to popularise banking it is absolutely necessary that all the business of the banks must be done in the vernacular of the province. It will not only help the people to understand the mysteries of banking, but will also encourage them to do their business with the bank. It will curtail working expenses and will increase the income.

Working Hours of the Bank

Another important observation which we should like to make is regarding the working hours of the Bank. Like many other foolish imitations, Indian banks are also imitating the working hours of the European banks. As a matter of fact they have gone a little farther in this respect than the European Banks. In England the banks generally open at 9 o'clock while in India they do not open until 10 o'clock. One fails to understand the reason why banks are opened so late in the summer months in a tropical country. In most parts of the North-West of India the heat reaches such a height between the hours of 10 A.M. to 4 P.M. during all the summer months that it is almost impossible to move about. Those who have had the sad experience of going to a bank during these hours in the summer months must have well realised the torture that one feels. Considering the circumstances of the country, we recommend that during the

summer months the State Bank should open in the morning at 7 o'clock and close at 11 o'clock and then reopen at 4-30 P.M. and should close at 7-30 P.M. These are the hours which most of the indigenous bankers and other business houses observe and it is in the fitness of things that the Bank should also adopt this wise custom.

Convenience of Depositors

The first and foremost duty of our State Bank should be to look to the convenience of its customers and the staff of the bank should be trained to respect the wishes and convenience of its clients. This spirit is lacking in most of the Indian banks at present. It must be realised by the Bank that those who come to the banks have also some value for their time and their business must be transacted without any delay. The Bank should follow a liberal policy regarding the facilities for withdrawal of money by the depositors and the rules regarding the withdrawal of money should be followed more in their spirit than in their letter. It must be realised that there is no special sacredness about the rules and a slight departure from these once in a while for the convenience of certain customers will not seriously jeopardize the position of the Bank. There are many people in India today who are prepared to open an account with a bank but are deterred from doing so owing to the fact that they have no time to waste at the counters of the banks when they want to withdraw their moneys. We have described elsewhere at some considerable length the facilities provided to depositors by the various State Banks in Australia and it would be well for us to follow their example.

Need for Propaganda

No one denies that India has a tremendous amount of hoarded wealth, and there are quite a number of people in the country who have ample funds at their disposal, and if only they were persuaded to lodge them with the bank, the country would derive a tremendous amount of benefit. The need for emphasising the importance of savings to the lower and middle classes of society is even more important. We

have shown in the first chapter that there is a will in the country to save and all that is lacking is the power of persuasion to make them to invest these savings. There is a great necessity for propaganda amongst the working classes to persuade them to deposit their savings. Under the circumstances we recommend that the General Banking Department should embark on an extensive propaganda and that campaigns should be carried on in the country emphasising the importance of savings and pointing out the facilities provided by the State Bank. Like the Penny Bank Department of the Savings Bank of South Australia, a Pice Bank Department should be opened within the General Banking Department where a deposit of one pice should be accepted and the agencies of the bank should be opened in all the primary and secondary schools of the country and every possible effort should be made to create a spirit of saving in the school children. Safety money deposit boxes at a nominal cost of four annas each should be distributed to encourage saving.

Branches of the Bank

Branches of the Bank should be opened in every town with a population of 5,000 or over and specially in all those towns which at present have Treasuries or Sub-Treasuries, and all the fiscal business of the Government should be done by this Bank. Spare moneys of the Provincial Governments should be lodged with this Bank. If my recommendations regarding the simplicity of appearance and economy in management are accepted, these branches will not put any serious strain on the finance of the Bank. On the contrary, they should soon become paying propositions and the indirect benefit that the nation will derive is so great, that even if the branches do not directly pay for themselves, the indirect advantages derived from them will outweigh all the losses that are incurred in opening them.

Working of the Credit Foncier Department

The Credit Foncier Department will be the most important department of the Bank as it will provide loans to

agriculturists, finance industries, and grant credit facilities for building houses. Therefore it is very essential that this department should be worked with the utmost care.

The providing of loans to agriculture by the Bank may be objected to on the grounds that there are already land mortgage banks in the provinces which are catering for this need and it is not necessary that this facility should be duplicated. The answer to this objection is that it is only in three provinces that there are land mortgage banks which provide any considerable credit to the farmers and in the remaining provinces the land mortgage banks exist more or less in name. We recommend that the co-operative land mortgage banks in these three provinces should hand over their business to the Credit Foncier Department or if they are not prepared to do so, they should be left to themselves to do this business and the Government should not guarantee their debentures. Co-operative land mortgage banks in India are co-operative more or less in name and it is better to call them semi-State banks. Therefore no harm will be done if either these banks are made purely co-operative and are left to themselves to manage their affairs or their business is amalgamated with the State Bank making them purely State Banks.

The financing of agriculture and industry is a very difficult job and requires special experience, care and caution. It is highly desirable that from the very outset the Bank should be made to follow a wise and cautious policy. The important business to be done in the Credit Foncier Department is the financing of these long-term loans which we shall discuss in a separate section, but before taking the problem of financing these long-term loans it is necessary that we must fully discuss the problem of loans for houses as this type of business seems rather novel in India.

Loans for Houses

Many readers of this treatise who have not read the chapters relating to State Banks in Australia, must have been surprised when we suggested that one of the functions

of our State Bank should be to provide loans for building or purchase of houses. The suggestion must have seemed novel to them. Their surprise seems justified because this important aspect of credit, *viz.*, provision of loans for houses has been almost completely neglected in India. The Provincial Banking Enquiry Committees, and the Central Banking Enquiry Committee, which have discussed the need for all types of finance have completely ignored this important aspect. While the country seems to be flooded with all kinds of literature for the provision of credit to the agriculturists and the industrialists, very little information is available regarding the financial needs for housing. To the knowledge of the writer no definite scheme has been put forth lately regarding the credit needs of those who want to provide themselves with one of the most fundamental needs of life—residential houses.

It is a pity that in a country like ours where housing conditions are perhaps the worst in the world, and where the need for airy houses is all the more necessary due to the fact that quite a considerable number of our womenfolk are confined to the four-walls of the house owing to various social restrictions like *Purdah* and other such customs, no agency exists in the country to cater for this important need. Unfortunately, the matter has not received the serious attention of the authorities in this country which its important nature deserves.

The Importance of Good Houses

The importance of good houses cannot be exaggerated. The healthy existence of a nation depends on good housing conditions. A tremendous amount of literature is available both in this country and abroad to show the close connection which exists between good health and good housing conditions.[1]

The large sums of money that are being spent on public health are of little use if the condition of houses is not

[1] Especially see Gupta Raj Bahadur, *Housing in India*.

improved. Most of the prevailing diseases in India can be directly or indirectly traced to bad housing conditions. A large number of deaths in India are due to bad sanitary conditions and bad housing. In order to judge the health of a nation, the best pulse to feel is the index of child mortality, because a child is most sensitive to his environment. In this regard, the condition of India is perhaps the worst in the world. We have probably the highest birth-rate and death-rate in the world being 34·3 and 24·9 per thousand respectively. The condition in the Westeren countries, a few decades ago was also far from satisfactory. But with the increase in the standard of living, improvement in sanitary conditions, and improved housing conditions, there has been a tremendous decline in both these rates. For instance, in England and Wales, at the close of the nineteenth century the births and deaths per thousand were 30·5 and 18·7 respectively, which by 1932 declined to 15·3 and 12·0 respectively. The infant mortality for Bombay where the housing conditions for the labouring classes are very unsatisfactory is 274 per thousand while in London it is 66 per thousand which in itself is considered pretty alarming. At the end of the nineteenth century the rate of infant mortality was as high as 156 per thousand in England and Wales taken as a whole.

The ecomonic effects of a high birth- and death-rate are very serious. The high birth-rate leads to more wear and tear on the womenfolk, saps their energy, impairs their efficiency, takes them away from work, leads to a high death-rate amongst the child-bearing women, and last but not least, it leads to a considerable amount of expenditure which has to be borne on birth and funeral expenses. And worst of all, in India a certain number of very stupid and expensive ceremonies are performed which are one of the main causes of indebtedness among the working classes. They have to borrow money at excessively high rates of interest and we know that once they fall into the clutches of money-lenders they seldom get out of this iron grip and slave all their life to feed the money-lenders by starving themselves.

Above we have briefly described some of the indirect advantages which good houses will yield by improving the health of the country. But its direct advantages in the purely economic domain are also very considerable as Sir Josiah Stamp remarks, "Housing is by general consent a key industry in the economic process. It involves an exceptional proportion of direct and immediate employment. It has to an exceptional degree a quickly radiating effect upon other industries."[1] Considering the tremendous importance of good housing both from the economic and other points of view, one is rather surprised as to why no attention has been devoted in India to this important problem. In the Western countries and the New World the problem has received special consideration. We have seen that out of six there is a definite provision for housing loans in five State Banks in Australia. There is no provision in the Agricultural Bank of Queensland for home loans because it is merely a State department and there is a separate institution for providing these loans. Similarly, separate institutions exist in other parts of the Empire and the United States to provide credit for home loans.

Special societies exist in England to provide loans for homes. These are known as building societies. The British Government have recently recognised the importance of better housing. The local bodies in England have always regarded as their duty to help those workers who want to acquire houses. But the biggest agencies which provide loan for houses in England are the building societies, a brief account of which will not be out of place here.[2]

At the end of 1933 there were 1,013 building societies having total assets of £501,070,038, which means an average of £501,000 per society. However there are a number of

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[1] Quoted by Bellman Harold, Sir, *The Thirty-Three Millions*; *A Study of the Building Society Movement*; and the *Story of Abbey Road Society*; London, 1935.

[2] For detailed account see Bellman, *op. cit.*

societies the assets of which stand at a very much higher level than the average.

There is one society which has assets of over £59 million, another of £32 million. At the end of 1933 there were 60 societies equivalent to 5·9 per cent. of total registered societies with total assets exceeding £1 million each. The combined total assets being equivalent to 82 per cent. of the total assets of all building societies.

Between the years 1919–33 the building societies advanced no less than £823 million. These societies mostly help persons of small or moderate means to own their houses. About 80 per cent. of these advances were made for £1,000 or below. The total number of houses purchased by these loans since the termination of the War to 1933 is approximately 1,300,000 which is half the number of total houses built during this period.

The advantages of house-ownership have been admirably summarised by Bellman which we quote below.

"From the individual standpoint, home ownership promotes thrift where little or none may be practised, since at the end of a term of years the borrower has an asset of considerable capital value which frequently he would not have possessed otherwise; and his annual outgoings while he is acquiring his home may be little if any, higher than if he were renting a house; it increases personal self-respect; and it encourages civic pride and adds a wholesome stability to the political institutions of the State by giving people 'a stake in the country'. The civic value of a wide-spread home-ownership movement is demonstrated daily in many parts of the country, but the following official testimony, which is an extract from the Annual Report of the Ministry of Health of 1929–30, is especially noteworthy: 'Many local authorities and social workers have borne testimony to the advantage of having a considerable number of owner-occupiers among the working class population. An interesting report received in the course of the year showed one local authority, previously sceptical, to have been impressed by

the improvement in the standard of upkeep of houses on those of their estates on which there was a considerable proportion of owner-occupiers, and to have found the care and attention devoted to the houses owned by their occupiers to have set an example which was ultimately followed by their rent-paying neighbours.' "[1]

Condition of Advances made by the Housing Societies

The Building Societies Act of 1874 defines the purpose for which a society may be formed as " raising by the subscriptions of the members, a stock or fund for making advances to members out of the funds of the society upon security of freehold, copyhold or leasehold estate by way of mortgage ". A large majority of building society advances are made on the security of private dwelling houses for the personal occupation of the purchasers. Advances are ordinarily made by the societies up to 75 or 80 per cent. of the value of the property as assessed by their surveyors. This margin is kept to recoup the society if through default it has to take the property. When an advance higher than 75 to 80 per cent. is desired the society either requires the guarantee of the local body or of an insurance company to pay the additional amount. Loans are granted for a period long enough to repay the advances from the money which the purchaser would have ordinarily paid as a rent. Repayments are made on amortisation basis in monthly instalments which include interest and a part of the capital so that after a certain period the purchaser becomes an absolute owner of the house. If £100 is borrowed at 5 per cent. a monthly instalment of 13*s*. 5*d*. will repay the loans in twenty years. Roughly calculated on the same basis if a house is purchased in India for approximately Rs. 13,400, a monthly instalment of Rs. 90 will repay the total debt in twenty years. This is much less than what ordinarily one has to pay as rent for a house of that value.

[1] Bellman, *op. cit.*, p. 222.

Home Loans by Our State Bank

We have seen that out of six, five State Banks in Australia provide loans to persons of moderate means to purchase houses. In a highly conservative country like England where things are mostly done by the people themselves, a tremendous amount of credit for the purchase of houses is provided not only by the building societies but also by the Government through local bodies.

We have given the above information just to show that it is absolutely a sound proposition for our State Bank to provide loans for the purchase or building of residential houses. Therefore we recommend that our State Bank should provide loans for the purchase or building of houses to the maximum amount of Rs. 15,000 to persons having an income not exceeding Rs. 1,000 per month up to 80 per cent. of the value of the houses for a period not exceeding twenty years. Some governments in India provide loans for houses to their officers. The period of these loans seldom exceeds five or six years. These loans have helped people considerably in owning houses. But it is not only a great hardship for the borrower to repay these loans in such a short space of time, but it is also against the sound canons of finance.

Loans for permanent improvement, for building houses or any other investments should be self-liquidating, and should be given for periods long enough, so that the repayments made should be realised from the improvements or assets. Instalments for house loans should not be more than what an owner would have ordinarily to pay as a rent. Such loans should be given for a period of fifteen to twenty years. This will be an excellent thing both from the point of view of the State Bank and of the borrower also. The bank will realise its payments easily and the borrower will feel no difficulty in repaying them. As regards funds to finance this scheme, these will be raised in the credit foncier department, the details of which have been described in another section.

It is hardly necessary for us to point out the great advantage that will accrue due to better houses both to the owners of the houses and to the nation. From the individual's point of view he will get a house after twenty years for an amount even less than the rent that would have been ordinarily paid. From the nation's point of view it will lead to better health and provide employment for some thousands of persons and shall give a fillip to trade and industry.

The Finance of Long-Term Loans

Sound finance is the foundation on which the structure of any financial institution stands, and if it is not soundly built, the superstructure, however strong it may be, is bound to collapse when it experiences even a mild shock. Therefore, it is a matter of the utmost importance that the foundation should be soundly built, so that the financial institutions should be able to absorb the shocks that they have to experience, owing to the delicate nature of their business. No financial institution can be run successfully for any length of time, if its finances are not managed on sound lines. The necessity for sound finance is all the more important in an institution which borrows and lends for long periods. As the credit foncier department of our State Bank will have to raise money for long periods in order to provide long-term credit, it is highly desirable, no, it is absolutely necessary that from the very beginning its policy should be based on sound financial principles.

Need for Funds

As the credit foncier department will have to provide long-term credit, it must have the necessary funds at its disposal to lend to the borrowers who offer adequate security. Where are the funds to come from ? The bank can have four resources open to it.

(1) It can use the funds of the savings department.

(2) Long-term deposits may be accepted in the credit foncier department.

(3) The Government may provide it with funds as and when needed, from the Treasury, or from the other sources.

(4) The bank may issue its own debentures on the security of mortgages in its possession, and thus raise the necessary funds for financing its long-term operations.

Now we shall briefly examine, each of the four means open to the bank and find out which is the best method open to the bank to raise the necessary funds.

1. The Use of Savings Department's Funds

The easiest way open to the bank to finance its long-term loans, is that it should utilize the funds lying unused in the savings department of the bank. This looks very easy. But the easier it looks the greater the pitfalls it has. In order to comprehend fully the danger that lies in following this method it is necessary to understand the nature of the funds available in the savings department and the nature of the loans in the credit foncier department.

Nature of Funds in the Savings Department

The funds in the savings department are the proceeds of deposits which people of small or moderate means have entrusted to the bank. These deposits are for short periods, and may be withdrawn at short notice. It is true that it is very seldom that all the depositors make their demands at one and the same time, and a bank learns by experience what proportion of its funds are withdrawn from day to day. It keeps that amount in ready cash to meet these liabilities, and invests the remaining funds in order to earn some interest, because if it does not make use of its spare funds to earn interest, how is the bank to pay any interest to its depositors! So it is on this basis that it is often argued, that if a bank has to invest its spare funds, why not invest it in the credit foncier department. But we have already pointed out that the funds in the savings department are only available for short periods, while the funds required for

financing the operations of the credit foncier department should be for long periods. If the funds of the savings department are utilized for the purposes of the credit foncier department to be loaned for long periods, and after a while these funds are again needed by the savings department, how is the credit foncier department to repay to the savings department? In order to understand the difficulties of the credit foncier department to repay its loans on demand, it is necessary that we should fully comprehend the nature of loans made by the credit foncier department.

1. Nature of Loans Made by the Credit Foncier Department.

The credit foncier department provides loans for long periods varying from five to twenty years or over, for any of the following purposes:

(1) To make permanent improvement in the soil,
(2) To purchase land;
(3) To buy expensive machinery or build factories and warehouses;
(4) To repay old debts;
(5) To build a house.

Now, from the nature of loans made by the credit foncier department it is clear that the proceeds of the loans are "sunk" in one way or the other, and it is not possible for the borrowers to repay these loans on demand. So, if the borrowers cannot repay on demand, how will the credit foncier department be able to repay on demand to the savings department?

It is clear from the above statement that it is not desirable for the credit foncier department to rely on the spare funds of the savings department to finance its operations. If this policy is pursued, the bank is likely to come to grief sooner or later, and rather sooner than later. It is mainly on this ground that it has been seriously objected by eminent financial authorities that State Banks should not be opened as they are fraught with danger, for it is against all canons of sound finance that the funds of depositors which are temporarily

placed for short periods at the disposal of a bank should as a matter of policy be loaned for long periods. But if we provide that the funds of the savings department should not be ordinarily used in the credit foncier department, we find no reasonable objection against the opening of a State Bank.

2. Long-Term Deposits in the Credit Foncier Department.

The second alternative is that, in order to finance the operations of the credit foncier department instead of utilizing the funds of the savings department, long-term deposits should be accepted in the credit foncier department itself. In this way the requisite amount of funds should be raised to provide long-term credit to the borrowers. There could be no objection to raising funds by this method if the necessary deposits could be obtained for a period long enough to meet the requirements of the credit foncier department. We have already stated that loans will be made by the credit foncier department for a period varying from five to twenty years or over. It is hardly possible to obtain deposits for such a long period. There will be few depositors who will be prepared to lock their funds for such a long period unless exceptionally high rates of interest are offered to them. It may be asked that how is it that investors are prepared to invest their funds in debentures and other securities which are issued for a period even longer than thirty to forty years. It should be realised that these debentures or securities are negotiable, and are quoted on stock exchanges and can be sold as and when desired. An investor is confident when buying these securities that he will be easily able to get the money whenever he stands in needs of funds, by the sale of these securities in the open market at the price then prevailing. But this cannot be said of deposits. He cannot easily transfer them and neither can he borrow on the security of his deposits without undergoing a considerable amount of trouble.

In India, the cotton industry is partially financed by long-term deposits which are accepted by the mill-owners.

But the Central Banking Enquiry Committee which studied the problem of industrial finance were of the opinion that the system of finance through deposits was not a sound one and recommended that efforts should be made to replace it by some more reliable and sound method.

Therefore we can hardly recommend this system of raising funds for the needs of the credit foncier department. This method has been tried in some countries but has not yielded satisfactory results. Some financial institutions that provide long-term credit to the farmers are allowed to receive deposits, like the Land and Agricultural Bank of South Africa, but it is the practice of many such institutions not to encourage such deposits. Although the Land and Agricultural Bank of South Africa is permitted to accept deposits withdrawable after three months notice, it is not the practice of the Bank to do so.

3. Financing by the Government.

The third alternative open to the State Bank to finance its long-term loans is that funds should be made available by the Government from the Treasury, from the annual revenues of the Government, or the Government should itself borrow funds and thus make these available to the State Bank. Funds are made available in this manner to many land banks; for instance, the Government of Queensland finances the Agricultural Bank of Queensland in this way. The Parliament of South Africa also apportions funds to the Land and Agricultural Bank of South Africa.

The financing of a State Bank by the government itself in its earlier stages is very desirable because it will take some time before the bank settles itself firmly and inspires public confidence to attract investors who will be prepared to entrust their funds to the bank. But to adopt this method of finance as a permanent policy is not sound. If the government is to provide all the funds for the requirements of the bank, it is but natural that in order to safeguard its funds, the government will have actively to intervene in the

management and policy of the bank, and thus the bank is likely to be influenced by the party in power. There is no doubt that the policy of the government in power is likely to be reflected even if it is a public corporation and the difference is only of a degree. But in matters like these even few degrees make all the difference in the world. It is highly desirable that finance and politics should be kept as far apart as possible and any measure that is likely to bring them closer should be discouraged.

It is in the interest of the State Bank that it should not rely too much on the assistance of the government. For if it has to depend on the government for funds to finance its long-term operations, these funds will be made available to it, according to the exigencies of the government and not according to its requirements. An arbitrary limit will have to be fixed for its operations, and in times of other needs of the government, it will be starved of funds.

4. Raising Funds by the Issue of Debentures.

The fourth alternative left to the State Bank to raise funds for its long-term operations is to issue debentures on the security of mortgages in its possession. The financing of long-term loans by the State Savings Bank of Victoria, and by many other banks in the Empire, is done on this principle. The financing of land mortgage banks in India is also done on this principle, and the Reserve Bank has issued an admirable circular giving the description of this method as practised by the land mortgage banks in India. The Reserve Bank gives sound suggestions to establish a sinking fund on a scientific basis, so that the debentures issued by the land mortgage banks should be redeemable at the expiry of their periods without any inconvenience. As the credit foncier department of our State Bank is very much akin to the present co-operative land mortgage banks in India, it is desirable that we should benefit by this admirable study of the Reserve Bank, and then see how far the suggestions put forward by the Reserve Bank for the land mortgage banks

can be incorporated in our State Bank and its credit foncier department.

The Financing of Land Mortgage Banks in India

Debentures are floated by Land Mortgage Banks in order to obtain funds for advancing loans for long periods on the mortgage of immovable property. The considerations by which these institutions in India are at present swayed in prescribing the conditions regarding the redemption of these debentures appear to be very one-sided. It is generally felt by them that since they are primarily meant for the benefit of the agriculturists, they should be able to take advantage of any fall in the general rates of interest so as to be able to lend at as low a rate as possible. It also happens that owing to their inexperience and uncertainty as to how this new kind of investment will find favour with the public, they have in the beginning to offer as an inducement a slightly higher rate of interest than that commanded by first class securities. They therefore like to make the debentures, though they are ostensibly issued for a long period redeemable at any time after a short notice in order to provide for the possibility of replacing debentures carrying a higher rate of interest by new ones at a lower rate. Apart from this wholesale redemption, Land Mortgage Banks also like to pay off the debentures to the extent they recover the money lent out by them every year and for this purpose they make the debentures redeemable by lot every year up to the extent of their recoveries on account of principal.

This procedure which has been so far adopted by the Madras Land Mortgage Bank and which is being copied by other provinces might seem to be of advantage to the Land Mortgage Banks. It will be obvious however that both these conditions regarding the wholesale redemption by notice and the retiring every year compulsorily of some of the debentures, are extremely unsatisfactory from the point of view of the investor. The first condition amounts to a policy of heads I win and tails you lose on the part of the bank, because if the general level of interest rates falls below that at which

the debentures are issued, the bank will certainly enforce its privilege of redeeming the debentures *at par* thus depriving the debenture-holders of the advantage of capital appreciation and compelling them to reinvest the money at a lower rate, while if the rates of interest go up it is equally certain that the bank will hold on to the debentures leaving them no option but to continue their investment at a low yield or to sell at considerable discount. The second condition is equally disadvantageous to the class of investor who is likely to be genuinely interested in long-term investments. Such an investor wants a steady yield on his money for a long period without having to bother himself frequently for finding out new sources for investment. The prospect of getting his money at any time without any option is not likely to encourage him to go in for these debentures.

It might, however, be said that this procedure regarding redemption has in practice worked satisfactorily, because in Madras the Land Mortgage Bank has been able to retire the debentures carrying high rates of interest which were issued in the beginning and it has found no difficulty in getting people to subscribe to the debentures on these conditions. There is one fallacy in this argument. It has to be remembered that these debentures are at present fully guaranteed by the local Government both in respect of principal and interest and have been declared trustee securities. For all practical purposes, therefore, they stand on the same footing as a loan issued by the Government and the success which they have achieved so far demonstrates not so much the confidence of the investors in these banks and their satisfaction with their methods as the credit which the Government commands. The glut of money and absence of other profitable and equally safe avenues for investment have also not a little contributed to the support which the debentures have received. To continue the present methods would mean hoping that the present cheap money conditions would last for ever and that the Government will be prepared to go on guaranteeing the debentures up to an unlimited extent. Both

these expectations are in the nature of things unlikely to be fulfilled. If and when money becomes tight and avenues for safe and profitable investment increase, people are not likely to choose conditions so patently unfavourable to themselves. As regards the Government guarantee it is improbable that with the best intentions in the world any government will agree to mortgage its credit and revenues for more than a small amount, while the scope for mortgage bank should be limited only by the number of people capable of receiving help from it and the amount it is able to obtain from the market. Though it will not be possible for any provincial land mortgage bank to meet the requirements of more than a small percentage of the agriculturists, its business is likely to run into several crores. The Central Land Mortgage Bank, Madras, is lending money at the average rate of four lakhs a month and has already exhausted the limit of one crore guaranteed by the Government. If it has to depend all the time on Government guarantee it will find itself considerably handicapped in doing its business. The guarantee is obviously intended to help the land mortgage banks in the initial stages when they have not built up sufficient funds to command the confidence of the market and the aim of the banks should be to organise themselves in such a way that, as their business increases, they will be able to keep themselves afloat by their own intrinsically sound position and not founded when the Government support is no longer forthcoming.

If the debentures of the Land Mortgage Banks are to be popular on their own merits, it is essential that they should be issued on the same conditions as the debentures of other bodies like Port Trusts and Municipal Committees which do not carry any Government guarantee and that the banks themselves should be run on business-like lines. As regards the conditions of issue, a provision for wholesale redemption after a short notice does not in any case seem necessary at present when the interest rates are already very low and the banks should be able to float debentures at the lowest

rate possible if there is a fixed period of maturity and if the business of the bank is managed on sound lines. As regards partial redemption in order to provide for the disposal of the amounts received back by the bank from time to time it is possible to accumulate the funds and to invest them in such a way as to provide the amount necessary for the repayment of the debentures on the expiry of the fixed period. This can be done best by having a proper sinking fund for the redemption of debentures. How a sinking fund should be constituted and worked is explained below.

The main idea of a sinking fund is to provide for the amortisation of debentures by setting aside and investing every year out of the realisations a fixed sum which with compound interest, at the rate which may be expected to be earned on gilt edge, will yield, at the end of the period for which the debentures are issued, an amount equal to that which has to be repaid. In fixing this sum the first thing to be considered is the rate of interest which is likely to be obtained on the investments. If the Land Mortgage Banks are run on proper lines and if the debentures are issued after proper enquiries regarding the state of the money market and on conditions which do not impose undue disabilities on the investors, it should be possible to get them subscribed to by offering a rate of interest not more than a half per cent. above that yielded by Government securities for similar periods. That is to say, it would generally be found safe to count on getting on the sinking fund investments a yield half per cent. below the rate at which the debentures are issued. To take a specified instance, if the Central Land Mortgage Bank raises debentures at three per cent. it would be safe to assume two and a half per cent. as the rate of betterment for its sinking fund investments. If the debentures are for ten lakhs for a period of twenty years, the sum to be invested every year in the sinking fund, in order to give ten lakhs at two and half per cent. compound interest at the end of 20 years will be Rs. 39,147. It is this sum which has to be invested in the sinking fund out of the realisations made

by the bank irrespective of the amounts it recovers by way of principal or interest. Actually it will be found to form a small part of the equated instalment in which repayments are made to the bank. These instalments are split up into principal and interest for the purpose of the accounts in respect of the recoveries but for the purpose of the disposal of these recoveries the instalment must be considered as a whole. Thus if the bank has lent out the money at four and half per cent. the equated instalments received by it every year will be Rs. 76,875. Out of this sum Rs. 39,147 will be first required for the investment in the sinking fund, Rs. 30,000 for the payment of interest on the debentures, and a sum of Rs. 7,728 will be left for the payment of dividends on shares, expenses of management, formation of a Reserve Fund, etc. This will be the allocation if the capital is only Rs. 10,00,000 and a margin of only one and half per cent. is kept between the rates for borrowing and lending.

In order that the sinking fund may be worked in the best interests of the bank it is necessary that it should be allowed to be invested not only in Government securities but also in the debentures of the bank. If this is done then the bank will be able to utilize the fund in stabilizing the price of the debentures by buying them if it is found that they are depreciating owing to too many sellers on the market or selling them when a scarcity of the scrip pushes up their prices abnormally. It must be remembered that when a debenture is purchased from the sinking fund it is not necessarily redeemed. It may continue on the books of the bank as held by the sinking fund or the Trustees and the interest will be paid by the bank to the fund. In case, however, it is found more suitable to cancel any debenture before the expiry of the term for which they are issued, the outstandings on account of debentures in the books of the bank will have to be reduced simultaneously with the writing off of the debentures from the sinking fund, and the future contributions to the sinking fund will have to be correspondingly adjusted. At the time of the final redemption of the

debentures, while other securities held in the sinking fund will have to be realised in the case of those in the form of debentures only book adjustments will have to be made.

The maintenance of a sinking fund will also be useful to the bank in providing a portion of the capital it will require for subsequent issues of debentures. In the nature of its business the Land Mortgage Bank has to go on issuing fresh debentures at frequent intervals. It must maintain a separate sinking fund for each series of debentures but so long as this is done there is no objection to the purchase to a limited extent of the debentures of one series from the sinking fund of another series at the market price. Thus supposing a few years after the first issue further debentures for ten lakhs are issued the bank can ensure the success of the issue by purchasing part of it from the sum accumulated in the sinking fund of the first series. Subsequently or when the time comes for the redemption of the first series, the debentures of the new issue held in its sinking fund may be either disposed of in the open market or if the price is unfavourable they may be purchased for the sinking fund of the new issue, which would have accumulated some funds by this time. In this way though the accounts of each sinking fund will be properly maintained separately, they could be utilized to strengthen and stabilize the prices of other issues. The general principle which has to be followed is that no sinking fund should at the time when the debentures mature hold in its portfolio of investments any security which matures more than a certain number of years, say five, after the date of maturity of the debentures. If this precaution is observed the danger of interlocking will be avoided and at the same time the sinking funds can be utilized for extending the activities of the bank and stabilizing the prices of the debentures.

In order that the open market operations of the bank regarding the purchase and sale of its debentures from the sinking fund may be carried on properly, it is essential that the bank or the Trustees should be in close touch with the money market. Such close contact will also enable the

bank to know what is the proper time for floating new debentures and to estimate the lowest rate of interest which should be offered on the debentures to be acceptable to the investing public. In this connection the bank will be well advised to follow the practice of commercial concerns of engaging a reputable firm of brokers for its business. Such brokers will be in a position to keep a watch on the transactions in the debentures on the stock exchange. They will inform the bank when any large block of debentures is coming on the market for sale so that the bank may purchase them and will be able to advise the bank when the debentures should be sold. The willingness of financial houses to invest in Land Mortgage Bank debentures will depend on their ready marketability and this will be ensured by frequent operations on the market for which the advice of brokers will be useful.

As the rate of the yield on the sinking fund investments may not remain the same throughout the life of the sinking fund and may sometimes be lower and sometimes be higher than the rate of betterment assumed originally, the accumulations in the sinking fund may sometimes fall short of and sometimes exceed what they ought to be. It is necessary therefore that the sinking fund for each series should be valued annually. When the value of the sinking fund is found to be less, the shortfall must be made good from the profits and in order to provide necessary funds for this it is necessary that the rate of interest charged to the borrower should include a margin, besides the margin required for expenses of management and provision for bad debts. It would be found generally that for these two purposes a margin of $\frac{1}{2}$ per cent. if the rate of interest is below 5 per cent. and 1 per cent. if the rate is above 5 per cent. should be kept in each case. If, on the other hand, the sinking fund is found to be in excess, the surplus should not be taken to profit and distributed but kept in reserve for making up any future shortfalls until that series of debentures is redeemed, after which it can be taken to profit.

The maintenance of a sinking fund on these lines is the best possible method both from the point of view of the bank as well as that of the investors for providing for the redemption of debentures on maturity. Big Port and Improvement Trusts like those of Bombay and Calcutta which issue debentures for large amounts work on these lines and do not find it necessary to make any stipulations for redeeming debentures before the expiry of the period for which they are issued. They are required by law to maintain a sinking fund for the redemption of debentures and they mention this fact prominently in their prospectuses for the issue of debentures. The creation of a sinking fund is in fact a guarantee to those who invest in the debentures that the institution issuing the debentures will have sufficient funds to meet its liability when the debentures fall due for repayment. Land Mortgage Banks by maintaining regular sinking funds for the redemption of debentures will increase the popularity of their debentures with genuine investors and should eventually be able to find a market for them without the guarantee of the government.

An alternative method which appears to be favoured by some is the creation of a Debenture Redemption Fund. The idea is to credit to this Fund the sums recovered annually on account of principal lent out but, instead of being used for compulsory redemption of debentures by lot, it is to be utilized in redeeming by purchase such of the debentures as are available on the market for sale. To the extent that the fund cannot be utilized for this purpose it is to be invested in government securities. The success of the scheme will depend upon the availability of a sufficient number of debentures on the market and from the transactions which have so far been taking place in these debentures it appears that most of the fund will have to be invested in securities. If this happens the Debenture Redemption Fund will become in fact a sinking fund without the advantages of a regular sinking fund. The contributions made to it not having been worked out on scientific lines, will not accumulate an amount

approximately equal to what is required to pay off the debentures. The investors will also not have the same sense of security as the sinking fund will give. If debentures are not to be compulsorily retired every year it would be far better to maintain a proper sinking fund on the orthodox lines.

Another point with regard to the issue of debentures is that it is undesirable to issue them in small driblets at frequent intervals for varying maturities. This prevents substantial investors and financing houses from taking any interest in them and their being dealt with or quoted on the Stock Exchange. The Land Mortgage Banks can easily arrange to obtain temporary accommodation till the amounts lent by them are sufficiently large for a debenture issue to be placed on the market.

As regards working on business lines, the first essential for any sound bank is to build up a sufficient paid-up Share Capital and Reserves. In both these respects the present practice of Land Mortgage Banks in India leaves much to be desired. They are content with making a rule that the amount outstanding on account of debenture shall not exceed twenty times the paid-up share capital and reserves. Even so only a small part of the Share Capital is collected from voluntary subscriptions and the required proportion is made up by making it compulsory for every borrower to hold shares worth twenty times the amount borrowed by him. As it is hardly possible for him to pay this amount in cash it is usually deducted from the loan. Thus the usual process of debentures being raised on the strength of the share capital is reversed and the share capital is raised with the help of the debenture money. This is as unbusinesslike as it is unfair to the borrower and it is desirable that the Land Mortgage Banks should amend their by-laws so that a debtor will not be required to buy more than one share compulsorily for each loan. Other shares should be floated from time to time on the market in order to ensure that the paid-up capital and reserves are not less than ten per cent. of the debentures.

As regards the Reserve Fund, it can be built up properly only if a sufficient margin is kept between the borrowing and lending rate. Land Mortgage Banks, however, owing to the desire to help the cultivator by lending to him at as low a rate as possible are very often persuaded to cut down their rates beyond the safety limit. The desire to help the cultivator is undoubtedly laudable but it must be remembered that the banks must work on business-like lines. They will be marring their own usefulness if they lend at a rate which does not enable them to keep a sufficient margin for building up a Reserve Fund. The rate must be worked out on the basis of what it is possible for the Land Mortgage Bank to charge without endangering its own stability. To work it out on the basis of what it is possible for the agriculturist to pay is to start from the wrong end, though undoubtedly it will be necessary for the banks to see when granting the loan that it will be possible for the cultivator to pay off the loan from the profits of cultivation. The way to ensure this is to fix the instalments for as long a time as will enable the borrower to repay the instalments out of his annual profits. The rate of interest itself must be fixed with reference to the requirements of the bank. What the bank requires is (*a*) the amount to be paid into the sinking fund, (*b*) the amount of interest on debentures, and (*c*) the amounts for payment of dividend on shares, meeting running expenses, creating a Reserve Fund, and provision for bad debts and fluctuations in the sinking fund; and all those together represent the annual instalment which the bank must get from its debtors. It is on the basis of the instalment that the rate of interest to be charged to the borrower should be worked out and not at any arbitrary figure above the rate at which the bank borrows money.

As in the case of the sinking funds, there is no objection to the Reserve Fund being invested partly in government securities and partly in bank's own debentures so long as the total amount of government securities held by the bank is not less than the amount of the Reserve Fund.

In order to maintain a sound position, Land Mortgage Banks must also avoid the mistakes made in the past by Co-operative Banks in not showing arrears properly in the balance-sheets and failing to take prompt action. It is necessary that all arrears should be shown separately in the balance-sheet. Arrears of more than twelve months should be excluded from the assets by being written off from profits and if the profits are not sufficient they should be written off from the reserves and no dividend should be paid in a year in which the reserve is drawn upon. Repayments of arrears should be similarly credited to the reserve till the amount withdrawn is replenished and then taken to profits. Care must also be taken not to dissipate the profits in the distribution of large dividends till a sound position is built up. It would be desirable to make a by-law that after paying a cumulative dividend of 5 per cent. one-third of the profits should be credited to reserve till the Reserve Fund and paid-up share capital equal to 10 per cent. of the debentures. One-third may be distributed as bonus to debtors who have repaid regularly for not less than 10 years, raised to two-thirds after the required amount of Reserve Fund and paid-up share capital is accumulated and the remaining one-third may be utilized for payment of an additional dividend. The maximum dividend may be limited to 4 per cent. over average Bank Rate for the year and any profit remaining after payment of the maximum dividend should be used in giving further bonus and strengthening the Reserve Fund.

In a recent article in the *London Stock Exchange Gazette*, investors have been advised to ask before putting their money into debentures, the following questions:

"What is the share capital of the Company or Society and who owns it? What is the amount of the debentures issued? What arrangements are made for repayment of the debentures by way of sinking fund or otherwise, and who is responsible for the investment of the sinking fund? Are the debentures or debenture stock quoted on any Stock

Exchange and if so, what is the quotation?" Land Mortgage Banks which manage their business on the lines indicated above in addition to the safeguards regarding valuation and scrutiny of loan applications, margin for advancing loans, appointment of trustees, etc., which are already provided for in their present by-laws, will find that they stand these tests best and are able to attract capital at reasonable rates.

The system of financing of land mortgage banks in India, recommended by the authorities of the Reserve Bank is very sound. The same system of financing is equally applicable to our State Bank, as the loans to be provided by the credit foncier department of our State Bank to the farmers, are based on the same principle and are meant for more or less the same purpose. As a matter of fact there is a very little difference between the credit foncier department of our State Bank and a land mortgage bank.

Many objections have been raised against the scheme recommended by the Reserve Bank. We shall enumerate these objections and then examine them individually and see how far they are valid, or what modifications can be made in the scheme to meet these objections, and adapt it for our State Bank.

Objections Raised Against the Reserve Bank Scheme

The following objections have been raised against the Reserve Bank Scheme:

(1) It is very rigid.
(2) It is very orthodox.
(3) It will raise the cost of credit to the borrower.
(4) It will lower the profits of the banks.
(5) The abolition of government guarantee will seriously affect the banks.

Now we shall examine each of these objections and see how far they are valid.

1. *Rigidity*

It has been suggested that the scheme of a sinking fund which has been recommended by the Reserve Bank is very rigid. If a borrower is allowed to repay his loans

say after five years at his discretion, and this is the option which has been given to the borrowers in practice in almost all the State Banks in the British Empire, it is contended that it will present a serious problem. Because if the bank is not allowed to repay its debenture-holders, and as suggested by the Reserve Bank the debentures are to run their full length, it will seriously handicap the banks. In theory, this objection is quite sound. If the borrower repays the full amount of his loan after five years, but the debentures representing that much amount of the loan have to run their full length, and the amount paid by the borrower, which is to be invested in the securities of the sinking fund, earning a lower rate of interest than that which is to be paid on the debentures, it means that the bank has to bear this loss for so many years. But the objection loses much of its force when we come to face the actual facts. In practice borrowers very seldom exercise this privilege of prepayment. As a matter of fact, requests are always made by the borrowers to extend the period of repayment. However, if it is realised that a number of borrowers do exercise this privilege, a modification can be made in the conditions regarding the issue of debentures and the banks may be permitted to repay their debenture-holders say after ten years if the full length of the repayment of debentures is twenty years by giving them one year's notice.

2. *Orthodox*

As far as the orthodoxy of the scheme is concerned, much depends on what we mean by it. Banking is such a delicate and complex business that if it is not handled very carefully and cautiously it is bound to come to grief. The very nature of the business requires that it should be run on sound and well-tried principles of finance. It is a pity that the word orthodox is often not properly understood by many people who use it so frequently. The word has been defined in the Oxford Dictionary as thus: "in harmony with what is authoritatively established". If we accept these meanings we find no reason to criticize the scheme

simply because it is orthodox. Those who object to the orthodox system of finance should not forget the serious harm to which the co-operative movement in this country has come to by not working on orthodox lines.

3. *Cost of Credit to the Borrower.*

It has been said that the scheme will raise the cost of credit to the borrower. In a predominantly agricultural country like India, where millions of farmers toil for mere existence, and the profits in the agricultural industry (if there are any) are exceedingly small, the cost of credit is a very important factor, and even a slight rise in this cost may mean all the difference. There will be hardly any person who will deny this. I am sure the authorities of the Reserve Bank are as anxious as any well-wisher of the farmer to see that the cost of credit is not unnecessarily raised to him. But in this connection it is very important that we should fully realise the implications when we talk about the high cost of credit to the farmer.

On the one hand, by following this policy we find that the cost of credit is temporarily raised to the farmer. He has to pay a slightly higher rate of interest, than he would have been called upon to pay if the land banks had not followed this orthodox policy. But by charging this slightly higher rate of interest, the bank is laying its foundations on very sound lines. If by following such a policy its financial position becomes sound, it can expand its activities and the confidence which it will inspire in the investors will raise its credit and the bank will be able to borrow at more favourable terms. This will greatly benefit the farmers in the long run.

On the other hand, if it follows a liberal policy which in these days means a loose policy, it may be able to lend to the farmer at a lower rate of interest for some time, but the bank is bound to come to grief sooner or later and it will find it difficult to raise more funds. As it will not be able so fully to win the confidence of the investors, it will have to pay higher rates of interest to attract sufficient funds, and thus in the long run, the bank will have to charge higher rates to the borrowers.

So it is quite clear that if a bank follows a sound financial policy, the cost of credit is not likely to be raised to the borrowers in the long run.

4. *Lowering of Profits*

It has been objected that if a land bank is to follow such a rigid and orthodox policy, it is bound to lower its profits. In private institutions profits are of considerable importance, because the sole concern of those who manage such institutions is the dividend that is to be paid to its shareholders. The objection loses much of its force in the case of a co-operative or a public utility corporation where the interest of the borrower is of more importance than the interest of the capitalists.

5. *Government Guarantee*

There is much validity in the objection that the abolition of government guarantee will seriously affect the land banks, and they will find it increasingly difficult to raise funds, and even if they do succeed, they will have to pay a higher rate of interest without the government guarantee. If land banks are made to adopt the scheme put forth by the Reserve Bank and proper supervision is kept over them, it is hardly likely that these banks will suffer any serious losses. It appears that the Reserve Bank seems unduly apprehensive about the effects which such a guarantee is likely to have on the credit of the government. I think it is a more reasonable attitude that the land banks must be made to act on the suggestions made by the Reserve Bank, and if the banks prove to the satisfaction of the Reserve Bank, that they are fully acting on the suggestions made by the Reserve Bank, there should be no hesitation on the part of government to guarantee fully the interest and the capital of the obligations of the land banks. It can be said that if the banks act on the suggestions of the Reserve Bank and make their position sound, they are bound to win the confidence of investors, and then there is no need of the government guarantee. But the same argument may be used to prove the case for the government gurantee, that is, if the financial position of the land banks is sound, where is the harm in guaranteeing their

obligations by the government if for one reason or another it is felt that the government guarantee will help them ; then why should the government grudge this small help.

The question of government guarantee has been studied by various commissions and committees in India, and it is their unanimous opinion that such a guarantee should be given. Here we shall quote only two such opinions: The Royal Commission on Indian Agriculture made the following recommendations: "The guarantee of interest on the debentures of land mortgage banks is the most suitable form in which assistance to these banks (co-operative land mortgage banks) can be given by the government." The Commission further recommended that "The debentures of land mortgage banks should be added to the list of trustees securities under the Trustees Act."[1] The Central Banking Enquiry Committee endorsed the recommendation made by the Linlithgow Commission and further suggested that "If in any Province it becomes necessary and appears to be more advantageous for the movement that the government should purchase debentures of certain value, we are in favour of such a form of states assistance."[2] After careful consideration of the whole problem, I am of the opinion that government guarantee is absolutely necessary for State Banks. The debentures of all in the State Banks, the activities of which have been described in this treatise, are guaranteed by their governments, and consequently we recommend that the debentures issued by our State Bank should be fully guaranteed by the Provincial Governments and the suggestions put forth by the Reserve Bank regarding the sinking fund should be thoroughly carried out.

If all the major suggestions made in this treatise are acted upon by the Provincial Governments and State Banks are established in the country, the nation is bound to derive a tremendous amount of benefit.

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[1] "Report of the Royal Commission on Indian Agriculture," Central Press, Government of India, 1926.

[2] "Report of the Central Banking Enquiry Committee," *op. cit.*

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